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ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।

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Credit Planning at the Bank Level*

L. D'MELLO

CREDIT planning is a new concept in Indian banking. The concept itself is not sufficiently elaborated in its theoretical aspect let alone in its practical details. The problem of formulation of a credit plan, methods to be used and the manner in which it is to be implemented are unexplored fields. Even in regard to the objectives of credit planning, there appears to be a difference of opinion. One view is that credit planning is in the nature of financial underpinning of the national Plan for investment and production. Another, a more popular view is that it is a method of meeting the needs of hitherto neglected sectors and backward regions. The two views can be reconciled; development of hitherto neglected sectors which are vital to the growth of the Indian economy, viz., small scale industries, small business, export, agriculture and backward regions of

*Based on a talk given at the Bank's Staff Training College Hyderabad, on 18-11-1971.

The views expressed in this article are personal opinions of the author and should not be taken as necessarily representing the official views of the State Bank of India or its Subsidiaries.

the country, should be an integral part of the Five Year Plan. To the extent targets of investment and production are laid down in respect of these sectors and regions, credit should be made available. But credit should also become available for the purpose of achieving the targets of investment and production in other sectors as well viz., large and medium scale industries, trade, house building and even infra-structure facilities. In other words, the monetary resources required for acquisition of inputs for investment and production should be ensured so that optimum use is made of the physical resources available for the implementation of the Five Year Plan. The ideal way of ensuring this is to see that fixation of targets in regard to investment, production and structural changes in the economy is simultaneously done with the allocation of required finance. The financial resources themselves may be available from several sources, bank credit being one, though an important one of them. It is necessary that all these diverse sources of finance are taken into account at a centralised level and specific responsibilities in regard to the supply of them are laid on the various financing institutions including banks.

In this article it is proposed to deal not with credit planning at the aggregate or national level but at the level of individual banks. Consistent with the view which has been expressed above, credit planning at the bank's level is a subsidiary function. The total financial resources available for implementation of the Five Year Plan having been determined, the proportion of the various types of finance, equity, credit, grants and Government loans having also been determined, the task of the individual bank is to see that it carries out the role assigned to it efficiently. On the resources side, this would indicate that the bank is in a position to mobilise the required resources by way of deposits. So far as the credit side is concerned, in effect it would mean that the individual borrower is given the amount of credit which is required to achieve pre-planned investment and production targets. It is to be assumed that the licensing and other administrative procedures would have allotted to each of the borrowing firms and sub-sectors, a specific tar-

get of production. The credit extended by the individual bank should be just adequate to achieve this target taking into account other sources of finance available to it. The general aim is to see that the firm does not get more finance than required so as to prevent it from acquiring physical resources to the detriment of the achievement of the targets by other firms. On the other hand, it is necessary to see that the credit given is not less than the amount required for achieving the target lest the target set for the industry as a whole or for the commodity as a whole is not achieved and in consequence the input-output relationships assumed in the Five Year Plan are upset. Therefore, credit plan at the individual bank's level is a plan which seeks to implement the national plan, consistent with the ordinary commercial principle of sound banking that neither more nor less credit is given to the borrower than is required for an approved purpose.

This view of the credit planning at the bank level has not been universally accepted. One opinion is that fixing of quantitative credit allotments in the national credit plan is neither possible nor desirable. It is believed to be not possible because the sectoral investment and production targets in financial terms are not available, and it is believed to be not desirable on the ground that such pre-planning would give rise to rigidities thereby preventing dynamic changes in what is essentially a free enterprise economy like ours.

In regard to the first objection, viz., non-availability of data, the answer is that such data should be made available. It is not as if we should make a credit plan because the data are available, but rather that we should collect the data because a credit plan has to be made. In this connection, mention may be made of the French example. In that country, credit planning has gone a great deal further than it has in ours. Statistics, therefore, are available on the basis of which the credit plan has to be made. In fact, the credit plan is made in co-ordination with their Planning Commission and in the formulation stage itself the required statistics

are collected. This needs to be done in India also because more than in France the need for economical use of available resources is urgent in our capital-scarce economy. As regards the fear of rigidities, planning involves some rigidities; a plan is a pre-determined programme of action, all parts of which are interlinked. To minimise the adverse effects of rigidities, it may be possible to frame the plan according to a range of figures rather than according to specific figures.

Bank Level Credit Plan

The task of credit planning at the bank level is: how the resources available to a bank or rather the incremental resources available to a bank within the course of a year or over a period of five years shall be apportioned among the various types of borrowers so as to accord with public policy. To start with, it is necessary to define public policy. As is well known, public policy demands, at the moment, that an increasingly larger share of the incremental deposits should be allotted to small scale industries, small business and agriculture. Exports should also receive adequate credit, because it is important that our exports should increase to meet our external obligations. It is felt that the backward regions of the country should receive a larger share of the incremental deposits than hitherto. With the preferential allocation, it should be possible that within a foreseeable future the distribution of the total credit of the bank is broadly in accord with contributions made by the various sectors of the economy to the national income. It is proposed that contribution to the national income itself from sectors like small industry and agriculture should be raised because of the employment potential and favourable income re-distribution effect. Another objective of bank level credit planning is to see that bank credit is not misused for purposes like hoarding of inventories or building up of fixed assets, which are not envisaged in Government policy of licensing and/or in the Five Year Plan. Whereas excess drawal of credit and misuse of credit should be prevented, adequate credit should be made available so that production does

not suffer in any industry. These may be called the public objectives of individual bank's credit planning.

Apart from the public objectives, there are certain corporate objectives for any individual bank, which should be embodied in its credit plan. The primary amongst such objectives is to maintain and increase the profitability of operations. Though theoretically most advances are subject to reconsideration every year, in effect they are renewed and may be taken as having been already committed. In fact, in the matter of deployment of funds, as far as the outstanding amounts are concerned, no large scale re-arrangement of portfolios is possible to take advantage of a better yield pattern. The readjustment of the portfolios with a view to achieving greater profitability or even achieving the other set of objectives, viz., the public objectives, is possible only to the extent that new resources are mobilised. Marginal amounts of investments and credit already committed also may become free for redeployment on a different pattern. In view of these facts and given the cost structure of the bank's operations, the main decision regarding profitability rests on the credit-deposit ratio.

Studies to determine a viable credit-deposit ratio should form an essential element of making a credit plan. A viable ratio depends upon the yield pattern, the interest rate structure, the cost structure, etc., of various types of liabilities and assets of the bank. Since all these relevant factors change from time to time, the exercise should be continuous to arrive at the required ratio at any point of time. Also, the average ratio for the year and its relationship with the year-end level should also be determined in view of seasonal movements in credit, deposits and investments.

The total amount of funds available for allocation to various sectors and sub-sectors of the economy will depend firstly upon the total increase in deposits, secondly, on the amount of borrowings from the Reserve Bank of India that may be permissible and lastly on the credit-deposit ratio.

Estimate of Deposit Growth

Estimates of deposits can be made either directly from the environmental factors affecting the operations of the concerned bank, or indirectly, on the basis of macro-economic data. Under the direct method, the effect on deposit mobilisation of variations in agricultural and industrial production, cash realisations, distribution of income and wealth, spread of banking habit, etc., in the areas where the bank's branches are established, would have to be estimated. In fact, the problem really boils down to estimating by how much all these factors would change the existing deposits of each of the branches. At the Head Office level, these expected changes in deposits would add up to a total growth over the level of the previous year for the bank as a whole. The direct method is not precise in the sense that the relationship between various changes occurring in the economy and the deposits of a particular bank has not yet been established. Even so, the insight and the experience of the branch manager coupled with a certain amount of trained observation would enable a reasonably good estimate being made.

Under the indirect method, deposit growth can be estimated for the banking system as a whole on the basis of past trends over a reasonable number of years. However, because of structural changes taking place in the Indian economy and the banking system itself, the past trend may not hold good for the future. An alternative method is to project a relationship between growth in national income as indicated in the Five Year Plan and the required or anticipated growth in money supply or monetary resources. Having estimated the increase in money supply or monetary resources, estimate can be made of the growth in deposits for the next year or so on the basis of existing relationship between bank deposits and money supply or monetary resources. The difficulty in this alternative method is that money supply and national income have not been growing in any predictable manner; money supply has exceeded the growth of national income in real terms by varying percent-

ages in the past. But taking the financial situation as a whole and including the deficits in the budgets, both the Central and State, it is possible to make a rough guess of the amount or percentage of money supply growth over a reasonable future period. If this estimate turns out to be correct then the estimate made on the basis of the relationship existing between money supply and bank deposits should also be correct. From the amount of deposit growth thus estimated for the banking system as a whole, the proportion which may accrue to the concerned bank can be estimated on the basis of the past experience and the bank's current plans and schemes for deposit mobilisation. This method would be particularly applicable to large banks or groups of banks.

Borrowings

In regard to borrowings from the Reserve Bank of India, certain objectives may be laid down — another of the corporate objectives of the bank. One view which may be taken is that the concessional refinance available in respect of advances for food procurement, fertiliser distribution and priority sectors, should be availed of, whatever be the size of such borrowings. Following from this it may be decided that borrowings at the penalty rate should be avoided. Another policy alternative may be that with a view to maintaining an average credit-deposit ratio already decided upon, borrowings from the Reserve Bank of India even at penalty rates may be resorted to for temporary periods. A credit plan formulated for the bank would have to take these objectives into account, which are in the nature of policy decisions of the top management.

Credit Allocation

On the credit allocation side, a corporate objective of the bank would be to achieve a compromise between a commitment to the goals of economic policy of the Government and minimising the cost of extending the credit in pursuance of that policy. Financing of small scale industries, agriculture and small business may or may not be a profit-

able business at the existing rates of interest on such advances and the cost of administering these advances. A decision may have to be taken as to the total desirable increase in advances to these hitherto neglected sectors over a period of a season or a year. That decision will have to be based on the experience of the bank. Quite apart from the cost and benefits of such advances there is an important consideration that the organisational capacity of the bank should be adequate to deal with the increase in such advances in the short run. If credit allocation is done merely on the basis of the increase in production of these sectors or their share in the growth of national income, the amount of credit required to be extended would be far in excess of the amount that may be determined on the basis of cost of administering the credit, the yield by way of interest earned or the administrative capacity to process and supervise such accounts. The increase in the amount of credit to be extended to priority sectors, therefore, has to be determined by studies, which may be considered as an essential part of credit planning.

Given the total increase in resources by way of increase in deposits and borrowings from the Reserve Bank and the amount of incremental credit which has to be provided for priority sectors, there would be a quantum of resources available for allotment to other sectors. As far as the public sector banks are concerned, even within this amount, there is need for earmarking an amount for food procurement purposes. This is a sizeable amount, the increase or decrease of which over a season or a year would materially affect the amount available for other purposes.

Food Procurement Advances

In regard to the estimation of credit requirements for food procurement purposes, economic data can be of some help. The quantity of foodgrains to be procured by the Food Corporation of India and other agencies would be, to an extent, determined by the output of foodgrains in any parti-

cular year. Estimates of foodgrains output are made from time to time, at any rate after September when the position regarding kharif crops becomes clear. On the basis of the total output, the marketable surplus also can be estimated. The relationship between the total output and the marketable surplus has not been worked out all that clearly. The marketable surplus in any year depends on the nature of the crop, the varying productivity of farms of different sizes, the variation in the output in various regions and States and so on. Even allowing for these difficulties of estimation, a rough idea can be had at least of the changes which are likely to take place over the previous year in the marketable surplus.

It is not as if all the marketable surplus is procured by the procurement agencies. The amount of buffer stock to be maintained is fixed by the Government from time to time. In the Five Year Plan itself a figure has been given. Additionally, the Agricultural Prices Commission recommends the quantity of foodgrains of various types to be procured during any season. The prices at which the procurement should take place are also recommended by the Agricultural Prices Commission. The Government announces the prices of foodgrains in various States and the quantities of various crops to be procured, after taking into account the recommendation of the Agricultural Prices Commission. Of the amount procured, a part will be disposed of in deficit areas. The net variation in the quantum of buffer stock and the value of the total stock determine the demand for credit for food procurement purposes.

From our discussions of credit allocation to the priority sectors and food procurement, the conclusion follows that policy determines the quantum; the demand aspect is the deciding factor in respect of foodgrains procurement financing and the administrative viability aspect is the deciding factor in the case of financing of priority sectors. Credit plan, however, has to be determined from the supply side rather than the demand side. Accordingly, the financing of priority sectors and food procurement may be regarded as a

pre-emption of certain portion of total resources on specific policy considerations. The balance of resources available for allocation to other sectors particularly to large scale trade and industry should be determined on economic criteria of what is needed by these sectors rather than what is demanded by them. Statistical and economic techniques have, therefore, to be developed for estimating the credit requirements of various industries, which constitute the bulk of borrowers of the banking system.

Credit Estimation for Industries

One proposal in regard to this is to work out the production elasticity of credit in various industries. The facts which are necessary to work out the ratio would be (a) incremental production expected over the credit plan period, and (b) the working capital requirements of the additional production, consisting of firstly, the variations in inventories and secondly the variations in their prices. Production itself would be determined by the investment which would need to take place. There would, therefore, be a need to estimate the amount of investment required for a given increase in production. It may be expected that the sectoral allocation of investment and also the sectoral targets of production would be given in the Five Year Plans. In fact, however, the Fourth Five Year Plan does not give figures of financial investment according to various sectors though production targets have been indicated. Given these figures a production elasticity of credit could be estimated for each sector by working out the relationship between the variations in production and working capital requirements.

Even if production elasticity of credit is worked out for each sector and sub-sector of the industrial economy, it may not be applicable to the particular set of borrowers on the books of any one bank. It may be convenient to make the assumption that the borrowers from a particular sector say, cotton textile industry, on the books of the bank are a representative sample of the total of the cotton textile industry. To the extent that this is not a realistic assumption,

estimate of the credit requirements will have to be modified from the practical knowledge available in the Advances Department.

Another difficulty of applying the ratio of credit elasticity of production is that there are time lags in the production process. If production is expected to go up by 10 per cent over the next year, accumulation of required inventories might start at the beginning of that year, the middle of the year or even middle of the current year, depending upon the nature of the industry and the market situation faced by the particular borrower. On the other hand, it may also happen that increased production can take place by running down the existing stock of inventories. This kind of situation would make the credit elasticity ratio inapplicable in the credit plan.

The conclusion, therefore, is that though credit elasticity ratio has to be worked and might be useful by and large in regard to the allocation of credit to various sectors and sub-sectors, in respect of credit requirements of a particular borrower or borrowers of a particular bank, there ought to be a second set of criteria, which will modify, to the required extent, the figure given by the credit elasticity ratio. This second set of criteria could be the average balance sheet for the industry giving the relationships between fixed capital, working capital, production and bank credit. However, other ratios also could be usefully worked out. The purpose of the average balance sheet would be to compare the requirements of an individual borrower against the average so that the reasons for any deviation may be adduced and rational judgement may be made in regard to the validity of those reasons. It must be understood that it would neither be possible nor desirable that every individual borrower should be made to conform to the average. The technique of average balance sheet should be used only to find out the reasonableness of any deviation from the average and to make appropriate provision for such deviations.

In the absence of these detailed studies to arrive at credit elasticity ratio of production and the average balance

sheet for various industries, some rough calculations can be made on the basis of the prospects for each industry during the credit plan period. If the economic conditions of a particular industry are such that production is expected to be higher or lower than the previous year by a certain percentage, it may be assumed that credit also should be higher or lower by the same percentage. It is possible, of course, that application of the same percentage variation in respect of credit is not correct. For instance, if production is expected to go up by 10 per cent, economies of scale in the use of inventories may enable the increase in production to be achieved by an increase in credit only of 5 per cent or any other smaller percentage than 10. Secondly, increase in credit requirements may be modified also by the rise in prices of inventories. It is possible that for the production to rise by 10 per cent the value of inventories might require to rise by 15 per cent because some important component of inventories has risen in price over the previous year. The exercise of estimating the prospect of an industry should be in terms of variation — percentage or absolute—over the previous year and not in terms of totals. Apart from being simple, this kind of exercise, based on current information, is extremely useful from the point of view of forecasting the trend in credit demand.

Prices and Credit

At this point, it is necessary to mention an important theoretical point pertaining to prices, which is relevant to credit planning. Businessmen and even operational bankers sometimes view the matter of prices as not being under their control. So, if the price of raw material say, cotton, has increased as compared to the last year, increased credit demand would appear to them to be justified. After all, given the requirement of a certain stock of inventories, the value is determined by the price. But on the theoretical level this reasoning is faulty. Demand and supply of money and credit are not like those of any other commodity. Demand creates supply in the case of money such that if higher prices lead to higher credit, that higher credit will in turn lead to higher

prices. On the other hand, if fall in prices were to lead to lower credit levels such lower credit would, in turn, lead to further fall in prices and so on. The point is that credit plan should be 'supply-determined' and judgement regarding the amount of credit required has to be made on independent investigation of the requirements and not on the basis of demand put forth by the borrower. In other words, a credit plan is not a projection of credit demand. Credit plan is a policy decision regarding credit supply required for a given level of output and not an aggregation of demand from various borrowers.

Role of Economic Research in Credit Planning

If the supply of credit to various sectors and sub-sectors of the economy is to be determined on the basis of need as bankers would estimate them rather than on the basis of demands made by the borrowers, then the credit plan of a bank will have to be ultimately based on the scrutiny and appraisal of applications for advances made by the bankers in the Advances Department. These decisions will have to be matched with overall economic factors and credit elasticity ratios and average balance sheets worked out on the basis of those factors. The job of such matching would have to be done in consultation with the Economic Research Department. Credit plan, therefore, will have to be formulated jointly by the operational bankers at various levels as also by the Economic Research Department.

Apart from the need to match individual assessment of loan applications with the aggregative economic data so as to allocate credit required for an estimated level of production, the Economic Research Department will have to come into the picture also for another reason. A credit plan is not an aggregation of individual loan applications and the sanctions given to each of them. The credit plan will have to be utilised by the bank to re-allocate credit so as to make the whole portfolio more viable from the bank's point of view and more acceptable from the point of view of broader goals of economic policy of the Government. It may hap-

pen that credit demand of a particular industry and each individual borrower belonging to it is correctly assessed. Even so, in the aggregate that particular industry may require to be given a lower rating in the total portfolio because of the possibility that the industry has no future in the economy as it is envisaged to grow over a period of years. However justifiable may be the amount of credit determined by the operational bankers at the branch or at the Head Office level, the industry will have to receive in future a lower proportion of total credit than in the past because the industry itself has no future in the country. On the other hand, some of the newer industries may require to be upgraded in the portfolio of the bank because in the course of the next few years these will come to occupy a more important role in the economy of the country. Thus, as in the case of national credit plan so also in the case of credit plan of an individual bank, priorities will have to be determined on the basis of the prospects and the place a particular industry will occupy in the economic development process. In delineating the prospects of various industries, the Economic Research Department will have to do the major share of the work.

Credit for New Units

The credit plan of an individual bank will have also to make provision for new units coming up in various industries. If the entire resources available are allotted to the existing borrowers on the books of the banks, then units which are likely to come up may suffer for want of credit. This might involve a decision to unload some of the borrowing units from the books of the bank or to persuade them to resort to other sources of finance. However, if the resources are sufficient not only to provide the credit requirements of the existing borrowers but also to meet the requirements of the new units, then the problem does not arise. But it is unlikely that in the course of the next few years such a situation will prevail in any of the Indian banks.

Regional Distribution of Credit

Credit planning also has a regional aspect. This is an important issue both at the political as also at the economic decision-making levels. Historically, Indian banks have concentrated on providing finance in urban areas and some well-developed rural areas. Decisions are now being made, which will involve accelerated growth of hitherto neglected regions of the country. The credit-deposit ratios of most banks are not uniform as between one State and another or even between one district and another in the same State. If the bulk of the deposits mobilised in a particular State is to be utilised for advances in that State and secondly if allocation of credit in certain specified backward districts should be increased, then the credit plan of the bank will have to embody these policy decisions.

One difficulty in regard to redistributing credit regionwise is that in the backward districts there is no demand for credit. Large scale industry and trade have not developed. It would, therefore, be necessary that to the extent the demand exists say, from agriculture, small industry, small business, etc., from these backward districts, it should be fully met. In other words, if a policy decision has been taken that a specified amount of advances should be given for these purposes in the country as a whole during the Plan period, preferential treatment to the backward districts would perhaps involve a decision not to give such advances in the more developed districts. Secondly, should private enterprise or public sector units come up in the backward States or districts they should be provided the required finance perhaps including contribution to equity, even if that would involve unloading of existing borrowers in the more developed districts.

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Bangla Desh Economy

Bangla Desh, with a population of 75 million, is the eighth most populous nation of the world. The per capita income is as low as \$60 per annum. A brief economic profile of the country is presented below.

Agriculture

Bangla Desh is a predominantly agricultural economy; agriculture contributed an average of 57.8 per cent of the gross national product during 1960-61 to 1964-65. The main crops are rice and jute. In spite of the predominance of agriculture, Bangla Desh has a food deficit, the size of which was 17 lakh tonnes in 1969-70. If the vast Ganga-Brahmaputra river system is excluded, the density of population rises to between 2,500 and 3,000 people per square mile. Land is fertile and about 80 per cent of the cultivable area is under rice. Crops are frequently at the mercy of floods and cyclones. If irrigation in the North is improved, it will be

possible to harvest an extra winter crop. Per acre yield of rice, the principal crop, is only 13 maunds. The land utilisation statistics of Bangla Desh are given in Table No. 1.

TABLE NO. 1

Land Utilisation in Bangla Desh			
			(In acres)
Total area	...	...	3,52,80,640
Area under forest	...	...	55,39,200
Uncultivable area	...	...	62,37,210
Cultivable fallow	...	...	10,31,520
Current fallow	...	...	7,25,710
Total net acreage under cultivation	...	...	2,17,47,000
Total acreage under crops	...	...	3,14,40,748
of which :			
(1) Under rice			
(a) Aman	...	...	1,46,81,570
(b) Aus	...	...	82,21,300
(c) Boro (winter crop)	...	...	15,33,797
(2) Under wheat	...	...	1,92,145
(3) Under jute	...	...	23,37,730

The major cash crop is jute, 'the golden fibre of Bengal'. Although the acreage under jute has increased since 1960, the yield per acre has gone down. In the period 1955-60, the annual production was nearly 6 million bales. The estimated crop in 1970-71 was 6.6 million bales.

Another cash crop is tea, which is grown mainly in Sylhet and to a less extent in Comila, Chittagong and the adjoining tracts. The quality of tea is poor and can be used only for blending. The area under tea has increased steadily from 95,000 acres in 1965-66 to 1,10,000 acres in 1969-70. Production in 1969-70 was about 66.7 million pounds. Productivity at 607 lbs. per acre is lower than in other major tea producing countries of the world.

Mining and Manufacturing

Bangla Desh has few mineral resources. It has an estimated 9 million cubic feet of natural gas and some coal reserves. The coal is deep and is difficult to mine. As for large scale manufacturing, its share in the gross national product was only 4 per cent (average for 1960-61 to 1964-65). The industrial structure of Bangla Desh includes an iron and steel plant at Chittagong with an annual capacity of 2,50,000 ingot tons, an oil refinery also at Chittagong with an annual capacity of 1.5 million tons, 3 small chemicals and fertiliser factories with a combined capacity of 47,000 tons and a machine tool factory with an annual production of 1,200 tons. Besides, at the end of March 1967, Bangla Desh had 68 jute mills, 22 textile mills, 7 sugar factories, a newsprint factory and a cement factory. Production statistics of some of the important industries of Bangla Desh in 1969-70 are given below in Table No. 2.

TABLE NO. 2
Output of Selected Industries in Bangla Desh
1969-70

Industry					Output
1.	Tea (lakh lbs.)	...	...	...	667
2.	Cigarettes (crore Nos.)	...	...	...	1,778
3.	Cotton yarn (crore lbs.)	...	...	...	10.6
4.	Jute goods ('000 tons)	...	...	...	580
5.	Urea ('000 tons)	...	...	...	94.3
6.	Safety matches (lakh gross boxes)	...	...	...	129.6
7.	Sulphuric acid ('000 tons)	...	...	...	6.5
8.	Printing paper ('000 tons)	...	...	...	21.4
9.	Writing paper ('000 tons)	...	...	...	10.3
10.	Packing paper ('000 tons)	...	...	...	10.5
11.	Newsprint ('000 tons)	...	...	...	35.9

All the companies which were owned by Pakistanis have been recently nationalised. These include 32 jute mills, 13 jute exporting companies and 7 jute baling presses.

Banking and Currency

The Bangla Desh currency is linked to sterling and Bangla Desh proposes to be a member of the sterling area. Bangla Desh Rupee is linked to sterling at the rate of 18.9677 units per pound sterling (the same as the Indian rupee). Both the Indian and Bangla currencies are thus exchangeable at par.

The Bangla Desh Bank has been constituted to be the central bank of the country. Six other major commercial banks — Habib Bank, United Bank, Australasia Bank, Commerce Bank, National Bank and Muslim Commercial Bank — were nationalised on the 29th December 1971. Apart from these banks, there are some foreign banks — Chartered Bank, American Express and National and Grindlays Bank — functioning in the important port towns of Chittagong, Dacca and Narayanganj. In addition, there are the Industrial Development Bank of Bangla Desh and the Agricultural Development Bank of Bangla Desh. In 1969, per capita bank deposits amounted to Rs. 57 and bank credit to Rs. 63.

Foreign Trade of Bangla Desh

In 1969-70, Bangla Desh had an overall deficit of Rs. 89.4 crores in its foreign trade, of which Rs. 74 crores were in its trade with the erstwhile West Pakistan and Rs. 15 crores in its trade with other nations. Total exports of Bangla Desh in 1969-70 amounted to Rs. 258.6 crores, of which Rs. 92.3 crores were to West Pakistan. Of the imports totalling Rs. 348 crores in 1969-70, Rs. 166.7 crores were from West Pakistan. Of the total exports in 1968-69, jute and jute products accounted for Rs. 140 crores (raw jute

Rs. 73 crores and jute manufactures Rs. 67 crores). Details of Bangla Desh's imports from the rest of the world are not available. Details of inter-wing trade in 1968-69 of the erstwhile Pakistan are given in Table Nos. 3 and 4 along with India's exports/imports of the concerned commodities for 1970-71, to indicate which commodities absorbed and supplied by West Pakistan can be taken care of by India.

TABLE NO. 3

Bangla Desh — Exports to West Pakistan

(In crores of rupees)

				Indian imports of the commodities in	
				1968-69	1970-71
(a) Primary Commodities					
Betelnuts	...	...	1.33	—	
Spices	...	...	1.54	0.47	
Wood and timber	...	...	1.84	30.34	
Others	...	...	12.36	—	
Total	...	...	17.07		
(b) Manufactured Goods					
Tea	...	...	40.49	—	
Jute goods	...	...	24.93	1.11	
Paper and paper board	...	...	17.26	24.80	
Matches	...	...	6.73	—	
Leather	...	...	4.66	0.05	
All other articles	...	...	25.63	—	
Total	...	...	119.70		
Total (a + b)	...	...	136.77		

TABLE NO. 4

Bangla Desh — Imports from West Pakistan

(In crores of rupees)

				Indian exports of the commodities in	
				1968-69	1970-71
(a) Primary Commodities					
Oilseeds	...	...	18.11	5.95	
Raw cotton	...	...	24.85	16.41	
Tobacco	...	...	15.97	31.40	
Foodgrains	...	...	23.50	—	
All other commodities	...	...	16.35	—	
Total	...	...	<u>98.78</u>		
(b) Manufactured Goods					
Cotton fabrics	...	...	34.21	97.47	
Cotton yarn and thread	...	...	9.64	34.47	
Machinery	...	...	10.46	28.07	
Drugs and medicines	...	...	8.49	8.46	
Tobacco manufactures	...	...	3.50	1.16	
Metal manufactures	...	...	2.96	27.84	
Rape and mustard oil	...	...	1.15	0.09	
Rubber goods	...	...	2.28	6.85	
Paper and paper board	...	...	4.11	3.93	
Vegetable oil	...	...	1.76	7.03	
Cement	...	...	11.06	2.03	
All other commodities	...	...	23.04	—	
Total	...	...	<u>112.66</u>		

It would appear that, barring raw jute and paper and paper board, there are only a few items of export from Bangla Desh, which India needs. This country, however, can meet the requirements of Bangla Desh in a large number of

items such as cotton textiles, machinery, drugs and pharmaceuticals, metal manufactures, coal, etc., which were so far being imported from West Pakistan. In course of time, it is expected that a high degree of complementarity similar to that which existed in the pre-Partition days, can emerge between Bangla Desh and India.

Indo-Bangla Desh Relations

Economic relations between the two countries continued even after Partition till 1965-66. India's total exports to East Pakistan amounted to Rs. 4.98 crores in 1963-64, Rs. 6.27 crores in 1964-65 and Rs. 3.31 crores in 1965-66. Coal was one of the principal commodities exported from India to Pakistan prior to 1965-66, mostly to Bangla Desh. But after 1965-66, the Bangla Desh requirements of coal were being met from China and far away Poland at higher costs. Fish and vegetables, paper and paper products and raw jute used to be imported by India from Bangla Desh.

Economic relations between India and Bangla Desh have to be viewed in the short run and the long run. In the short run, till the country is recognised by most of the foreign nations, India will have to be the major trading partner of Bangla Desh. In the long run, if the co-operation at the political level between the two nations can be maintained at its present level, complementarities can be built into the economies of the two countries by dovetailing their economic plans. In the short run, the requirements of Bangla Desh are both for reconstruction and for substituting West Pakistan as the major supplier and market. Bangla Desh has a deficit of 17 lakh tonnes of foodgrains, mostly of rice, which in the short run has to be met by India. At present, India's rice stock position is very comfortable and according to India's Minister of State for Food and Agriculture, Bangla Desh requirements can be met by India. In the long run, Indian capacity to supply rice to Bangla Desh is dependent on the monsoon and the progress of the green revolution in the country. Besides, Bangla Desh

may weigh the relative prices of rice in India and other countries. Restrictions on imports of some other food items from India have been lifted by Bangla Desh. These items are coconut oil, milk food, mustard oil, oilseeds, spices and fresh and dry fruits. Imports of cane, bamboo, sugarcane and soda ash from India have also been permitted freely. Against this, India has decided to import without restrictions food items like fish, eggs, poultry, vegetable (except potatoes), fresh fruits, ginger, garlic, coriander seeds, green chillies, turmeric, betel leaves, tortoise and turtle and tamarind. Hides and skins are also permitted free entry. In addition, India may have to supply Bangla Desh this year 1.5 million tonnes crude oil, 54,000 tonnes kerosene, 36,000 tonnes high speed diesel, 40,000 tonnes of fertilisers, 60,000 tonnes of edible oil and 35,000 bales of raw cotton. India has already made an ad hoc allocation of 1 lakh tonnes of crude to start the Chittagong refinery. Besides this, 15,000 tonnes of kerosene, 5,000 tonnes of high speed diesel and 10,000 tonnes of asphalt are also being supplied immediately. A request for 40,000 tonnes of fertilisers is being met out of the stocks of the Fertiliser Corporation of India. A wide variety of engineering goods, which Pakistan used to supply to Bangla Desh, will have to be supplied by India. The import requirements of Bangla Desh this year of engineering goods, cement, etc., will be higher due to large rehabilitation demands.

The items which India can import from Bangla Desh (apart from foodstuffs) are paper and paper products and newsprint, in which India has a deficit. The capacity of newsprint production in Bangla Desh is 70,000 tonnes, of which only 12,000 tonnes are consumed at home. The 30,000 tonnes which used to go to West Pakistan will now go to swell the exportable surplus. On an average, India has been importing 1,80,000 tonnes of newsprint. This year against 40,000 tonnes of newsprint scheduled to be imported against U.S. credit, only 10,000 tonnes have been imported creating scarcity conditions. Bangla Desh can also offer 21,000 tonnes of white printing paper, which has in the past

served as a substitute for newsprint in this country, 10,000 tonnes of writing paper and 10,500 tonnes of packing paper.

One of the commodities in which Bangla Desh has an export surplus is raw jute. But the intake by India cannot be very large and would depend on the fluctuations in domestic production of raw jute. For instance, the import bill of raw jute rose from Rs 1.77 crores in 1967-68 to Rs. 9.31 crores in 1968-69 only to come down to Rs. 1.08 crores in 1969-70 and Rs. 14 lakhs in 1970-71. But India can import better quality raw jute from Bangla Desh.

Problem of Credit and Prices

Some of the problems, which confront the trade with Bangla Desh, will centre around credit and prices. For quite a long time to come, Bangla Desh is likely to have an adverse balance of trade with India, which requires to be financed by aid. The size of the trade gap will depend on many factors including recognition of the Bangla Desh Government and the amount of aid forthcoming from friendly nations. A preliminary exercise made by the Ministry of Foreign Trade reveals that in the transitional phase, there may be an imbalance of the order of Rs. 35-45 crores per annum. The rehabilitation and reconstruction requirements of Bangla Desh are estimated anywhere between Rs. 550 crores and Rs. 2,000 crores by various agencies. The Bangla Desh Home Minister estimates that houses will have to be built for 20 million people, including the returning refugees. Besides, the war damage to railways, communications and industries will have to be repaired. Damages to industrial plants appear to be less than originally estimated. The financial needs of Bangla Desh are estimated at \$3 billion over two years by the Bangla Desh Planning Commission just to get the country back on its feet.

Till now India has extended three credits to Bangla Desh — commodity aid amounting to Rs. 25 crores, a for-

eign exchange loan of £5 million and a loan of Rs. 10 crores for rehabilitation of railway system in Bangla Desh. India has agreed to pay Rs. 20—22 crores to Bangla Desh for rehabilitation of refugees and to provide up to one lakh tonnes of rice and 4 lakh tonnes of wheat—estimated to cost Rs. 45 crores. So far, 42,000 tonnes of foodgrains have been sent.

The Government of India has decided to route the trade between the two countries through the State Trading Corporation, except the border trade. This is a welcome step as it will reduce the exploitation by private traders of the scarcity conditions in Bangla Desh.

For a long time to come, Bangla Desh will have to depend on her jute and jute goods exports for foreign exchange earnings. India being the other leading producer of jute and jute goods (together they control 80% of world's jute supply), co-operation between the two countries on the lines of the reported decision to form a 'jute community', will avoid wasteful competition in the world markets between the two countries. Bangla Desh has already abolished the bonus voucher scheme on raw jute and jute goods exports. But adoption of monopolistic practices by the two countries coming together will be harmful to the interests of both the countries in the long run, as synthetics are already stealing a march over jute goods. "Jute prices have recently ranged as high as £230 a ton, 60% above the 1970 average. Unfortunately for both countries jute prices at these levels are hopelessly uncompetitive with synthetics in countries that can afford to import or make them." (The Economist — London).

The immediate problem of Bangla Desh on foreign trade front is the marketing of jute and jute goods stocks. It is estimated that about 37 lakh bales of jute are available for exports. The principal buyers are the U.K., Germany, Belgium, France, Japan, U.A.R., Portugal, Poland, Netherlands, U.S.S.R., Spain and China. The pick-up in exports will depend to a large extent on the speed with which

the recognition *de Jure* or *de facto* will be accorded to the new nation. The U.K. and German jute interests were reported to be prepared to lift the stocks even before formal recognition by their Governments. In fact, the Dundee team has already visited Dacca. Yugoslavia has contracted for the import of 2,000 tonnes of jute on cash payment (pending the signing of a trade agreement). Yugoslavia is expected to purchase another 3,000 tonnes of jute in the near future. Czechoslovakia has also agreed to purchase about 21,000 tonnes of jute. For some time to come, a portion of jute exports will have to be routed through India. Already, India has granted port, shipping and reinsurance facilities for Bangla Desh exports. Similarly, till such time as Bangla Desh is recognised by various nations, the services of foreign banks and Indian banks may be necessary for facilitating payments for exports and imports. Indo-Bangla Desh trade will, of course, be on rupee payment terms.

Current Topics

Stock Markets in 1971

The declining trend in equity prices observed in the last quarter of 1970 accentuated further in 1971. The Reserve Bank of India's All-India Index Number of Variable Dividend Industrial Securities (base: 1961-62 = 100) declined sharply from 101.0 for the week ended December 26, 1970 to 91.5 for the week ended December 25, 1971, recording a fall of 9.4 per cent as against a rise of 13.6 per cent in the corresponding period of the previous year. The index numbers of security prices for the years 1970 and 1971 are given in the following table.

TABLE NO. 1
INDEX NUMBERS OF SECURITY PRICES
(1961-62=100)

Last week of					Debentures of Joint Stock Companies	Preference Shares	Variable Dividend Industrial Securities
1970							
January	...	...	...	...	93.5	87.0	87.9
February	...	...	...	...	93.6	87.2	89.3
March	...	...	...	...	93.6	88.1	95.8
April	...	...	...	...	93.6	88.4	99.6
May	...	...	...	...	93.6	88.1	97.2
June	...	...	...	...	93.6	88.1	100.0
July	...	...	...	...	93.7	87.9	99.4
August	...	...	...	...	93.7	88.5	106.8
September	...	...	...	...	93.7	88.5	109.0
October	...	...	...	...	93.5	87.8	105.4
November	...	...	...	...	93.4	86.6	101.6
December	...	...	...	...	93.5	86.2	101.0
1971							
January	...	...	...	...	93.3	86.1	102.6
February	...	...	...	...	93.1	86.2	99.9
March	...	...	...	...	93.2	85.9	100.1
April	...	...	...	...	93.1	85.3	101.3
May	...	...	...	...	92.7	84.6	99.4
June	...	...	...	...	92.6	84.6	97.5
July	...	...	...	...	92.6	83.2	94.0
August	...	...	...	...	92.6	83.5	93.0
September	...	...	...	...	92.7	83.0	93.5
October	...	...	...	...	92.8	82.3	90.3
November	...	...	...	...	92.8	82.2	88.3
December	...	...	...	...	92.7	82.0	91.5

The bearish factors which affected the market sentiment were the reports of difficulties experienced by cotton textile mills on account of a sharp rise in raw cotton prices. apprehensions regarding conversion of loans provided by public financial institutions to companies into equities, the Government instructions to the stock exchanges to square up all outstanding forward business, the influx of refugees from Bangla Desh and the subsequent outbreak of the Indo-Pak war. However, towards the close of the year, the victory over Pakistan gave a tremendous boost to the share market.

The Union Budget for 1971-72 was considered by the market as not very encouraging to the private corporate sector. Tax proposals were framed with a view, among other things, to minimising opportunities for tax evasion and reducing inequalities of income and wealth. The rate of surcharge on personal income-tax was revised from 10 per cent to 15 per cent on incomes exceeding Rs. 15,000. The rate of tax on net wealth above Rs. 15 lakhs was raised to 8 per cent from the existing rates of 4 and 5 per cent on slabs of net wealth between Rs. 15 lakhs and Rs. 20 lakhs and above Rs. 20 lakhs respectively. The rate of surtax on profits exceeding 15 per cent of capital was raised from 25 to 30 per cent. The development rebate was introduced in 1955-56 in respect of new investment in plant or machinery installed and new ships acquired after March 31, 1954. It was announced that no development rebate would be allowed on ships acquired or machinery or plant installed after May 31, 1974. The list of priority industries was curtailed by deleting certain industries from the list. Apart from these, exclusion of debentures and long-term loans from the capital base for calculating the limit of tax exemption for new industrial undertakings proved to be detrimental to increasing the rate of savings and investments. In the absence of any positive measures in the Budget for capital formation, the aforesaid tax proposals further worsened the position.

The following table gives the index numbers of security prices from December 1970 to December 1971.

TABLE NO. 2
INDEX NUMBERS OF SECURITY PRICES—REVISED SERIES—VARIABLE DIVIDEND
INDUSTRIAL SECURITIES (1961-62=100)

Last Week of	Decem- ber 1970	Jan- uary	Feb- ruary	March	April	May	June	July	Aug- ust	Sep- tember	Octo- ber	Novem- ber	Decem- ber	Variation of December 1971 over December 1970
								1971						
1. Agriculture and Allied Activities	91.7	90.5	89.4	88.9	88.4	88.5	88.5	85.9	84.7	86.4	86.1	85.5	85.5	-6.2 (-6.8)
2. Mining and Quarrying	54.9	53.2	52.6	54.5	54.3	53.3	53.1	52.0	51.0	50.8	49.6	49.2	46.4	-8.5 (-15.5)
3. Processing and Manufacturing	97.8	99.7	96.8	97.0	98.3	96.4	94.4	90.6	90.1	90.3	87.1	85.5	89.0	-8.8 (-9.0)
(a) Foodstuffs, Textiles, etc.	83.8	84.8	83.0	82.2	82.7	81.3	79.7	75.7	75.9	76.1	73.7	72.3	74.6	-9.2 (-11.0)
(i) Cotton Textiles	71.8	73.6	72.0	71.1	70.1	68.0	65.7	62.4	62.0	61.8	59.6	58.6	60.6	-11.2 (-15.6)
(ii) Jute Textiles	40.6	38.9	38.7	38.6	46.8	45.7	44.0	44.7	49.1	50.6	48.9	47.3	50.7	+10.1 (+24.9)
(b) Metals, Chemicals and Products thereof	103.7	106.1	102.1	102.6	104.7	101.8	99.3	95.8	94.6	94.3	90.6	89.5	93.9	-9.8 (-9.5)
(i) Iron & Steel	107.3	105.1	99.7	98.4	102.6	94.4	90.5	84.4	82.8	81.4	78.9	77.3	79.1	-28.2 (-26.3)

TABLE No. 2 (Contd.)

Last Week of	Decem- ber	Jan- uary	Feb- ruary	March	April	May	June	July	Aug- ust	Sep- tember	Octo- ber	Novem- ber	Decem- ber	Varia- tion of Decem- ber1971 over Decem- ber1970
	1970							1971						
(ii) Machinery other than Transport & Electrical	76.9	76.6	75.4	77.3	76.5	75.8	73.1	67.0	68.6	69.1	66.2	65.3	65.8	-11.1 (-14.4)
(iii) Basic Indus- trial Chemicals	116.7	120.8	115.6	118.4	120.9	120.2	115.3	109.2	106.1	106.7	102.6	103.4	111.1	-5.6 (-4.8)
(c) Others	123.2	126.4	123.3	125.3	127.1	125.9	124.2	120.4	119.9	121.3	117.0	113.7	118.5	-4.7 (-3.8)
(i) Cement	112.7	115.9	112.2	113.7	115.7	112.1	108.3	104.5	105.4	108.2	105.9	103.0	104.6	-8.1 (-7.2)
(ii) Paper and Paper Products	153.9	157.6	151.5	153.5	155.3	157.8	156.3	159.0	160.8	162.4	156.9	153.4	159.0	+5.1 (+3.3)
4. Other Industries	124.4	126.0	122.5	123.0	124.6	122.2	120.2	118.2	113.7	115.5	111.3	105.9	111.1	-13.3 (-10.7)
5. Financial	125.9	127.4	128.8	130.3	130.6	127.2	126.3	120.0	122.1	124.3	120.8	118.1	111.1	-14.8 (-11.8)
6. All Industries	101.0	102.6	99.9	100.1	101.3	99.4	97.5	94.0	93.0	93.5	90.3	88.3	91.5	-9.5 (-9.4)

Figures in brackets indicate percentage variations.

The index numbers in respect of all the groups showed a declining trend. The group 'mining and quarrying' recorded a steep fall of 15.5 per cent followed by 'financial' (11.8%), 'other industries' (10.7%), 'processing and manufacturing' (9.0%) and 'agriculture and allied activities' (6.8%). The sub-group 'iron and steel' recorded a steeper fall of 26.3 per cent followed by cotton textiles (15.6%), 'machinery other than transport and electrical' (14.4%) and other sub-groups. The two sub-groups to show a rise were 'jute textiles' (24.9%) and 'paper and paper products' (3.3%). Thus, all the groups excluding jute textiles and paper and paper products suffered a setback in 1971.

With the decline in the prices of securities, there was almost a steady levering up of yields of industrial securities in 1971. During the year, the gross yield on variable dividend industrial securities rose by 1.36 points to 6.91 per cent, that on preference shares by 0.35 point to 10.21 per cent and on debentures (redemption and running) by 0.76 and 0.07 point to 8.79 per cent and 7.39 per cent respectively. This is evident from the following table.

TABLE NO. 3
GROSS YIELD ON INDUSTRIAL SECURITIES

(Per cent per annum)

Average of Month	Debentures		Preference Shares	Variable Dividend Industrial Securities
	Redemption Yield	Running Yield		
	1	2	3	4
December 1970	8.03	7.32	9.86	5.55
December 1971	8.79	7.39	10.21	6.91

New Issues

The total capital raised in 1971 at Rs. 61.08 crores was lower by 35.5 per cent than the capital raised during 1970, when it had recorded a rise of 43.4 per cent to Rs. 94.69 crores. However, consents for issues of capital at Rs. 77.66 crores in 1971 were higher by 23 per cent than Rs. 63.19 crores in 1970. This is reflected in the following table.

TABLE NO. 4
CAPITAL CONSENTS AND ISSUES

(Rupees in crores)				
	1970	1971	Variation of	
			1971 over 1970	
			Actual	Percentage
	1	2	3	4
Capital Consents				
I. Total Equity	53.18	61.11	+7.93	+ 14.9
(a) New Issues	9.22	18.70	+9.48	+102.8
(b) Rights	2.10	4.81	+2.71	+129.0
(c) Bonus	35.10	28.34	—6.76	— 19.3
(d) Others	6.76	9.26	+2.50	+ 37.0
II. Preference Shares	4.91	2.72	—2.19	— 44.6
III. Debentures	5.10	13.83	+8.73	+171.2
Total Consents	63.19	77.66	+14.47	+ 22.9
Capital Issues				
I. New Public Limited Companies	17.91	9.66	— 8.25	—46.1
II. Running Companies (Total)	76.78	51.42	—25.36	—33.0
(a) Prospectus	15.62	11.85	— 3.77	—24.1
(b) Rights	11.28	10.08	— 1.20	—10.6
(c) Bonus	37.88	25.42	—12.46	—32.9
(d) Debentures	12.00	4.07	— 7.93	—66.1
Total Issues	94.69	61.08	—33.61	—35.5

Outlook for 1972

The outlook for 1972 appears to be good. The Government has initiated a number of measures to boost industrial production. In a major drive to maximise industrial output, 54 critical industries have been permitted to produce more from their existing capacities. These industries include, among others, fertilisers, cement, paper, tyres, drugs, cotton textiles, tractors, basic metals and machine tools. The Union Government has chalked out a crash programme for stepping up steel production. The number of industrial licences issued in 1971 totalled 611 as against 363 in 1970. The value of licences issued for the import of capital goods amounted to Rs. 120 crores during April-September 1971 as compared to Rs. 63 crores in the corresponding period of 1970. It is expected that the licences issued for substantial expansion may prove effective during the current year. Thus, the year 1972 could well be characterised as one of justified optimism. Satisfactory outlook on the agricultural front coupled with the prospects of larger availability of raw materials and the spirit of self-reliance pervading in the country augur well for stimulating investment activity.

Legal Decisions

On Banking

Order of Discharge—Validity of

State Bank of India

Appellant

vs.

R. K. Jain and Others

Respondents

1971 II Labour Law Journal 599

Contributed by N. K. Randeria

The question in this appeal was with regard to the validity of the order of discharge of an employee.

The first respondent, who had joined the Bank as a money tester, was asked to show cause in respect of two charges — (i) that there was a shortage of 10 pieces of

notes of Rs. 10 denomination in the packet which contained the label bearing his initial; and (ii) that he tried to destroy the label in order to absolve himself from the liability for the shortage. The first respondent denied the charges as baseless. He stated that as the packet was handled by different persons, the stitching had become loose, and while the packet was being recounted by him, the slip tore off accidentally. An inquiry was conducted by one B. P. Tiwari, an officer of the Bank. During the course of inquiry, the officers of the Reserve Bank, who had given evidence on behalf of the Bank, refused to be cross-examined by the first respondent. The first respondent pointed out that the inquiry conducted by the Enquiry Officer was opposed to all principles of natural justice and was not a proper inquiry. Notwithstanding this, the Enquiry Officer proceeded with the inquiry and submitted his report finding the first respondent guilty.

On considering the report, the Bank decided that the inquiry was not proper and directed a de novo inquiry by another officer, who proceeded to hold the second inquiry in spite of protests from the first respondent. When the first respondent found that the second inquiry was being proceeded with, he consented to take part under protest and requested the Enquiry Officer to summon five witnesses (employees of the Bank). The Enquiry Officer rejected the request of the first respondent regarding the three witnesses on the ground that their evidence would not be useful for the inquiry, and regarding the two others, he informed the first respondent that the first respondent should arrange to examine these witnesses at the inquiry at his expense. The first respondent pleaded that these two witnesses were examined by him in the previous inquiry at his cost, and since the second inquiry was being held due to no fault of his, he was unable to summon these witnesses at his expense. The Enquiry Officer did not accept the plea of the first respondent and proceeded with the inquiry in absence of these witnesses. He submitted his report holding the first respondent responsible for the shortage and for deliberately tearing off the label

bearing his initials with the intention of destroying the evidence. On the basis of the report, the first respondent was discharged from the service of the Bank. His appeal against the order of discharge was rejected by the appellate authority, the Deputy Secretary & Treasurer, New Delhi.

Being aggrieved, the first respondent moved the Central Government, who referred the matter to the Industrial Tribunal for adjudication.

The Industrial Tribunal made an award holding that the first respondent was not afforded a reasonable opportunity to produce evidence in his defence and that the Bank was not justified in terminating his service on the basis of the report of the Enquiry Officer.

The Bank appealed to the Supreme Court.

The contentions urged by the Bank before the Supreme Court were (i) that the Tribunal had no jurisdiction to set aside the order of the Management in absence of any malice, (ii) that even if it was held that the evidence was not sufficient to justify the order of discharge, the Bank had full jurisdiction to pass the order of discharge, and (iii) that even if the domestic inquiry conducted by the Bank was vitiated, the Tribunal erred in law in not giving an opportunity to the Bank to adduce evidence before it and establish the validity of the order of discharge.

The Supreme Court rejected all the three contentions urged by the Bank. The Supreme Court said that while it was well established that it was the duty of the party who wanted to have witnesses examined to produce them before the Enquiry Officer for examination, in view of the fact that the second inquiry was not held at the instance of the first respondent, the Tribunal was justified in holding that there had been a violation of the principles of natural justice in the conduct of the domestic inquiry and that the workman was not afforded a reasonable opportunity to place his defence before the Enquiry Officer. The Supreme

Court further said that the Enquiry Officer, who was part of the Management, was not justified in not forwarding the request of the workman to arrange for the production of the witnesses. The Supreme Court, therefore, held that the domestic inquiry suffered from a very serious infirmity and the order of discharge based upon the findings recorded in such an inquiry could not be sustained.

As regards the second contention of the Bank, the Supreme Court held that the same was devoid of substance. The Supreme Court pointed out that the Bank never proceeded on the basis that the service of the first respondent was being dispensed with on the ground that the Management did not consider it expedient to retain the workman in its service notwithstanding the fact that the evidence had been found to be insufficient to sustain the charges levelled against him.

As regards the third contention, the Supreme Court observed that the inquiry which was conducted by the Tribunal was a composite inquiry and the Management could rely not only on the validity of the domestic inquiry but could also adduce evidence before the Tribunal justifying its action. The right to adduce evidence had been given to the Management and it was for the Management to avail of it. It was open to the Tribunal to accept the evidence adduced by the Management and to hold in its favour even if its findings were against the Management regarding the validity of the domestic inquiry. The Supreme Court observed that there was no justification for the view that the Tribunal was to first investigate into the validity of the domestic inquiry and if the decision was against the Management, then to conduct a further inquiry regarding the evidence that might be adduced by the parties against the validity of the action taken by the Management.

For all these reasons, the award of the Tribunal was confirmed and the appeal filed by the Bank was dismissed with costs.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 28-1-1972	A Month Ago 31-12-1971	A Year Ago 29-1-1971
State Bank of India			
Total Deposits :	1,516.4	1,501.9	1,253.0
Demand (Exclusive of inter-bank transactions)	683.3	668.8	602.1
Time (-do-)	833.1	833.1	650.9
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc. ..	1,182.0	1,114.5	1,069.2
Total Investments	415.0	415.1	342.0
Subsidiary Banks			
Total Deposits :	398.2	405.6	349.4
Demand (Exclusive of inter-bank transactions)	160.9	163.2	147.9
Time (-do-)	237.3	242.4	201.5
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	322.6	317.1	301.0
Total Investments	90.7	89.4	71.8
All Scheduled Commercial Banks			
Total Deposits :	6,898.0	6,922.4	5,789.6
Demand (Exclusive of inter-bank transactions)	2,946.7	2,979.1	2,548.4
Time (-do-)	3,951.3	3,943.3	3,241.2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	5,096.3	5,047.0	4,590.4
Total Investments	1,658.2	1,639.6	1,356.5

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	Decem- ber 1971	Septem- ber 1971	Decem- ber 1970
State Bank of India			
No. of Offices ...	2,477	2,350	2,112
Finance to Small Scale*			
Industries :			
No. of Units Assisted	38,489	36,858	34,084
Limits Sanctioned ...	262.12	253.71	246.51
Outstandings ...	176.88	168.91	151.76
Direct Finance for			
Agriculture :			
No. of Accounts ...	1,93,852	1,97,251	2,16,155
Limits Sanctioned ...	68.91	68.77	74.07
Outstandings ...	47.70	46.45	51.81
Indirect Finance for			
Agriculture :			
No. of Accounts ...	920	925	1,047
Limits Sanctioned ...	96.78	93.10	177.11
Outstandings ...	41.07	49.73	70.56
Export Finance :			
Outstandings ...	108.05	114.60	92.93
Subsidiary Banks			
No. of Offices ...	1,304	1,259	1,149
Finance to Small Scale*			
Industries :			
No. of Units Assisted	19,650	19,364	17,212
Limits Sanctioned ...	90.35	89.34	84.91
Outstandings ...	50.19	47.53	44.54
Direct Finance for			
Agriculture :			
No. of Accounts ...	65,414	67,257	65,645
Limits Sanctioned ...	31.97	30.96	33.46
Outstandings ...	21.15	21.90	23.53
Indirect Finance for			
Agriculture :			
No. of Accounts ...	801	713	656
Limits Sanctioned ...	16.62	17.62	26.51
Outstandings ...	6.97	7.29	11.92
Export Finance :			
Outstandings ...	14.03	12.92	11.86

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

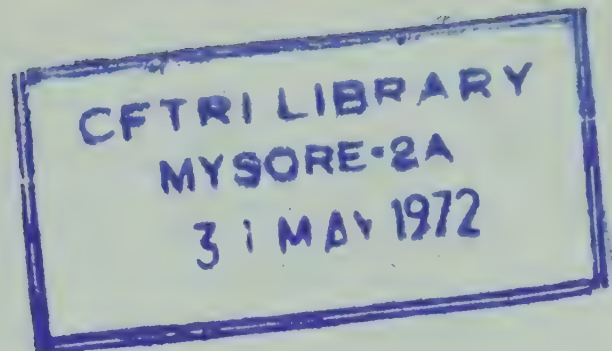
	Position as on (28-1-1972)	A Month Ago (31-12-1971)	A Year Ago (29-1-1971)
(Amounts in rupees crores)			
1. Money Supply with the Public ...	7,809	7,703	6,946
(a) Currency with the public ...	4,708	4,567	4,259
(b) Deposit money with the public	3,101	3,136	2,687
	December 1971	November 1971	December 1970
2. Foreign Exchange Reserves ...	802.1	793.8	738.7
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ...	6	6	5
(b) State Bank of India Advance Rate ...	8½	8½	7½
(c) State Bank of India Hundi Rate ...	8¾-10½	8¾-10½	9½
(d) Call Money Rate (Bombay) ...	4.8	3.5	6.4
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

		June 1971	May 1971	June 1970
4. Index Number of industrial Production (1960=100)				
General Index ...		188.4	181.8	182.4
(Adjusted)				
	Week ended (29-1-1972)	Week ended (25-12-1971)	Week ended (30-1-1971)	
5. Index Numbers of Wholesale Prices (1961-62=100)				
All Commodities ...		190.9	187.4	183.4
Food Articles ...		212.3	206.4	201.3
Liquor and Tobacco		203.4	200.1	184.4
Fuel, Power, Light and Lubricants		174.7	174.6	163.0
Industrial Raw Materials ...		188.3	187.5	205.0
Chemicals ...		199.4	201.5	189.6
Machinery and Transport Equipment...		161.7	161.7	150.7
Manufactures ...		171.8	168.9	162.1
	December 1971	November 1971	December 1970	
6. Consumer Price Index Numbers for Industrial Workers (1960=100)				
...		195	197	186
7. Foreign Trade				
	(Rupees in crores)			
Total imports ...		188.5	159.6	134.7
Total Exports (including re-exports) ...		143.6	134.8	151.6

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।



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1971 : Another Year of Growth for the Bank

THE BANKING SYSTEM

The banking situation during the year was marked by a faster growth of deposits and a slower expansion of credit. Over the year, scheduled commercial banks' deposits increased at a higher rate of 20.6 per cent than 16.6 per cent in the previous year. Growth in advances at 11.6 per cent was, however, much smaller than 23.1 per cent in 1970 and lagged behind the current year's deposit accretion. Consequently, scheduled commercial banks were able to reduce their borrowings from the Reserve Bank of India by Rs. 131 crores and to step up their investments in Government securities by Rs. 287 crores. The credit-deposit ratio declined during the year from 78.3 per cent to 72.4 per cent, while in the previous year, the ratio had risen by 4.1 percentage points.

Deposit Growth

There was a pronounced rise in the deposits of scheduled commercial banks. Aggregate deposits increased

during the year by as much as Rs. 1,171 crores against Rs. 808 crores in 1970. The rapid growth in deposits may be attributed to massive branch expansion programme, spread of banking habit particularly in rural areas, intensification of efforts for deposit mobilisation and larger deficit financing. Time deposits expanded at a higher rate of 22.3 per cent than demand deposits, which rose by 18.4 per cent. In 1970, the growth in time and demand deposits was almost equal at 16.7 per cent and 16.5 per cent respectively. The sharper rise in time deposits was mainly due to upward revision of interest rates on deposits and the continued exemption from income-tax of income from investments in financial assets up to a certain extent. Another reason seems to be the fall in transaction demand for funds due to the current slack in industrial production, which might have prompted the business community to shift their deposits to higher interest bearing categories.

Credit Expansion

During the year under review, there was a considerable slowing down in the rate of credit expansion due to the deceleration in the growth of industrial production. Scheduled commercial bank credit increased during the year only by Rs. 514 crores as compared to a rise of Rs. 836 crores in the previous year. A sizeable portion of the increase in bank credit was for the purpose of financing food procurement and priority sectors.

Credit Policy

The Reserve Bank of India pursued a policy of credit restraint during the year. The Bank rate was raised from 5 per cent to 6 per cent in early January and the net liquidity ratio was increased from 33 per cent to 34 per cent towards the close of January. Ceiling rates on various categories of deposits were also raised by $\frac{1}{4}$ to $\frac{1}{2}$ per cent as an incentive for deposit mobilisation.

The credit policy for the 1971-72 busy season continues to be restrictive. The basic mechanism of refinance has

almost been kept intact excepting for food procurement, where marginal changes have been introduced. Considering the overall trends in agricultural and industrial output and prices, the credit expansion during the 1971-72 busy season is likely to be somewhat higher than that in the previous season. The likely pace of deposit accretion and the support that would be available from the Reserve Bank of India should prove adequate to meet the 1971-72 busy season requirements. In the context of the Indo-Pak conflict, certain relaxations were made in respect of credit to defence-oriented industries within the existing framework of the credit policy. In border areas, bank advances were exempted from the operation of selective credit controls and the credit guarantee scheme for advances to small industries has been liberalised.

Other Measures

The Thakkar Committee, which reviewed the special credit schemes of banks with special reference to employment potential, has recommended that the banking system should assist in employment generation. Recommendations of the Committee were accepted by the Reserve Bank of India and guidelines were issued to all commercial banks in this respect. The growing unemployment is a part of the larger problem of economic development. The paucity of credit very often is merely an outward manifestation of other deficiencies concerning technology, marketing, raw materials, etc., which financial institutions by themselves will hardly be able to set right. Commercial banks control only one ingredient viz., supply of credit and can, at best, play a role of catalyst. If the banks' efforts in developing entrepreneurship and self-employment in rural and backward areas are to succeed, they will have to be assisted by other agencies concerned with the overall economic planning.

With a view to augmenting the supply of credit to neglected and weaker sections of the society, the Credit Guarantee Corporation was instituted by the Reserve Bank

of India during the year under review. The provision of guarantee cover, by minimising the risk of loss, should enable commercial banks to increase their lending to small borrowers.

Branch Expansion

The nationalisation of 14 major commercial banks has quickened the pace of the expansion of banking services into rural areas. The total number of commercial bank offices increased by 57.2 per cent between July 1, 1969 and December 31, 1971 — from 8,262 to 12,985. Of the 4,723 new offices, 64.7 per cent were opened in rural areas. The proportion of rural offices in total commercial bank offices rose from 22.2 per cent at the end of June 1969 to 37.7 per cent at the end of December 1971.

The large scale branch expansion has placed tremendous strains on the banking system. Of course, the tempo of branch expansion has slowed down in the current year, the number of new offices opened during 1971 being only 1,805 as against 2,137 in 1970. Even the present rate of expansion is quite high, especially when the banks are operating under the constraints of limited trained manpower resources, heavy overhead expenses at rural branches, urban-oriented staff and salary scales out of tune with the social milieu of the rural areas.

THE BANK'S OPERATIONS

As in the case of all scheduled commercial banks, the deposit accretion of the Bank during 1971 was significantly higher than the growth of its advances. As a result, the Bank was able to liquidate its borrowings from the Reserve Bank of India and increase its investments in Government securities.

Over the year, the Bank's deposits rose by 22.9 per cent as compared to 18.6 per cent in the previous year. Credit expansion, on the other hand, slowed down considerably from 31.7 per cent in 1970 to 7.1 per cent in 1971. Investments in Government securities rose during the year

by Rs. 78 crores against a rise of Rs. 30 crores in 1970. The Bank's borrowings from the Reserve Bank of India declined by Rs. 49 crores in 1971 as compared with the increase of Rs. 122 crores in the previous year.

Deposit Growth

The deposit growth of the Bank during 1971 at Rs. 280 crores was higher than Rs. 192 crores in 1970. Component-wise, while the growth of demand deposits at 15.9 per cent during the year was lower than 17.5 per cent recorded in the previous year, time deposits showed a higher increase of 29.1 per cent in 1971 than 19.6 per cent in 1970. As a result, the share of time deposits in the total deposit accretion of the Bank stood at 67.2 per cent compared to 32.8 per cent in the case of demand deposits. In 1970, the shares of these two categories of deposits in the deposit growth of the Bank were 55.2 per cent and 44.8 per cent respectively. Significantly, the accretion to savings bank deposits at 23.2 per cent during the year was higher than 18.5 per cent in the previous year. But current deposits rose by only 13.0 per cent as compared with 16.9 per cent in 1970.

As in the case of the banking system, the higher rate of deposit accretion of the Bank may be ascribed to the larger deficit financing and upward revision of deposit rates. Special deposit mobilisation measures taken by the Bank like Janata Deposits Scheme, setting up of Satellite Offices, Staff Incentive Bonus Scheme, etc. and further widening of the Bank's office network in recent years have helped the Bank in mobilising sizeable amount of deposits in 1971. A substantial portion of the deposit growth of the Bank in 1971 (up to the end of November) emanated from rural and semi-urban areas. Deposits of rural and semi-urban branches formed 40.8 per cent of the total deposits of the Bank at the end of November 1971.

Credit Expansion

The pace of the Bank's credit expansion slackened considerably during 1971. Against a growth of Rs. 250

crores in 1970, the Bank's advances in 1971 rose by Rs. 74 crores. The increase in food procurement advances of the Bank at Rs. 9 crores during the year was smaller than the rise of Rs. 54 crores in 1970, because of their being shared by other banks. Excluding food procurement advances, the growth in the Bank's advances at Rs. 65 crores during 1971 was lower than Rs. 196 crores in 1970.

The smaller rise in the Bank's credit was mainly due to a slower growth of its industrial advances, which during the year rose by Rs. 43 crores as compared to Rs. 126 crores in 1970. The Bank's advances to the sugar industry declined by Rs. 36 crores as against an increase of Rs. 24 crores in the previous year. Excluding the sugar industry, the increase in the Bank's industrial advances amounted to Rs. 79 crores in 1971 as compared with Rs. 102 crores in 1970.

State Bank Advance Rate

Following the rise in the Bank rate by 1 per cent to 6 per cent in early 1971, the State Bank of India Advance Rate was revised upward by one percentage point to 8½ per cent with effect from January 8, 1971.

Branch Expansion

The tempo of rapid branch expansion witnessed in the last two years was maintained in 1971 also. The Bank opened 365 offices in 1971. At the end of 1971, the Bank had 2,477 offices in India, of which over 79 per cent were in rural and semi-urban areas. Of the 790 offices opened by the Bank during 1970 and 1971, 60.5 per cent were located in rural areas and 19.2 per cent in semi-urban areas. The thrust into rural and hitherto unbanked areas has, however, posed problems, which have brought to the fore the need for consolidation of what has been achieved in this respect.

Under the Lead Bank Scheme, a crash programme for identifying growth centres for branch expansion has been completed in all the 89 Lead Districts allotted to the

State Bank Group excepting in Lahaul and Spiti District in Himachal Pradesh. The State Bank Group has been allotted 176 centres in its own Lead Districts and 184 centres in the Lead Districts of other banks. As against these, the Group has already opened 102 offices at such centres. Detailed survey reports of 57 of the Lead Districts have been completed and those of 31 districts are under preparation. Arrangements have also been made to form Consultative Committees in the Lead Districts to facilitate joint and speedy action for their development.

Financing of Agriculture

The Bank's strategy for financing the agricultural sector was reviewed during 1971, with a view to consolidating the Bank's position and ensuring healthy growth of the business in future. The Bank has now decided to move away from scattered lending and lay greater emphasis on intensification of the area approach. An important feature of the new strategy is to select about 150 Intensive Centres in about 2/3 years' time. The basic objective is to select compact areas, where the economy in its various facets can be improved by the Bank's support. Preference is being given to areas which are backward and where special schemes of the Government are being taken up. Agricultural Development Branches are being set up at such Intensive Centres with the necessary support of technical and other field staff. The centres are being selected in consultation with the State Governments. Out of 66 Centres identified by the year-end, 38 had been cleared by the State Governments. Up to the end of the year, 18 such branches had already been opened. Since it is difficult to provide expert staff at all the offices, the Bank's strategy insofar as other branches are concerned, is to grant agricultural advances in a few adopted villages within manageable limits, both from the point of view of farmers and areas to be covered.

In pursuance of the new strategy, scattered business done in areas other than Intensive Centres and adopted villages is being gradually reviewed, instalments of equip-

ment loans and other medium-term loans are being repaid and a number of crop loans granted earlier in far-flung areas are being adjusted. In the process, there was a decline in the direct agricultural advances of the Group from Rs. 75 crores at the end of 1970 to Rs. 69 crores at the end of 1971; the relative number of accounts also went down from 2.82 lakhs to 2.59 lakhs during the year. The shift in favour of small farmers continued during the year and at the end of 1971, 76 per cent of the farmers assisted had holdings of 10 acres or less. Indirect finance for agriculture declined from Rs. 83 crores to Rs. 48 crores during 1971, mainly due to the repayment of credit extended for fertiliser distribution and reduction in advances granted through the co-operative system.

Financing of Small Scale Industries

The volume of finance extended by the State Bank Group to small scale industrial units increased further during 1971, though the pace of growth somewhat slackened due to the slowdown in industrial growth during the current year. At the end of December 1971, the State Bank and its Subsidiaries had more than 58,100 small scale units on their books, with outstandings of Rs. 227 crores. The State Bank Group accounted for 37.3 per cent of the total credit provided by all scheduled commercial banks at the end of June 1971.

The Bank's special scheme for financing small artisans and units in the Rural Industries Projects was reviewed during the year and certain modifications were made to place the development of this business on a sound footing. The number of units financed at Rural Industries Projects increased by 3,887 to 10,051 during the year and the relative outstandings went up by Rs. 327 lakhs to Rs. 512 lakhs. A scheme for financing artisans in co-ordination with selected institutions assisted by the Khadi and Village Industries Commission has been put into operation on an experimental basis at the State Bank of Saurashtra. Under the scheme, the State Bank of Saurashtra grants accommodation on concessional terms both for meeting working

capital needs as well as for purchase of equipment. Finance is channelled through the institutions, which not only sponsor the artisans for assistance but also supervise their production activities and ensure punctual repayment of loans. The scheme is proposed to be extended to other areas, if its working is found satisfactory. The scheme for financing qualified entrepreneurs was also modified with a view to making it more effective. The number of qualified entrepreneurs assisted by the State Bank Group increased by 309 to 807 during the year and the relative outstandings rose by Rs. 171 lakhs to Rs. 519 lakhs.

Employment-oriented Schemes

With a view to creating larger opportunities for fresh gainful employment, the Bank has decided to implement the existing schemes for financing small scale industries, small business and agriculture at 60 selected pilot centres, with special accent on employment creation. Some specific schemes have also been drawn up for implementation at these centres. The Bank's efforts are at present concentrated at these pilot centres and the activities financed cover a wide range.

Financing of Exports

Export finance provided by the Bank increased by 16.3 per cent to Rs. 108 crores during the year. Export credit extended by the State Bank Group as a whole rose during the year from Rs. 105 crores to Rs. 122 crores. The share of the Group in the total export credit provided by all scheduled commercial banks also went up from 26.5 per cent at the end of December 1970 to 30.8 per cent at the end of September 1971.

For servicing the country's growing foreign trade and assisting in export promotion, the Bank opened a Representative Office at Beirut in October 1971 and upgraded the Representative Office at New York into a full-fledged branch on December 8, 1971.

ORGANISATIONAL AND OTHER MATTERS

The study of the Bank's organisational structure and management practices, which was undertaken with the assistance of the Indian Institute of Management, Ahmedabad, was completed during the year. The scheme of reorganisation was introduced in the Ahmedabad and Bombay Circles (excluding Bhopal Region) with effect from July 1, 1971. The work at larger branches has been organised on the basis of market segments with a view to focussing attention on the different needs of various classes of customers. It is expected that handling of complete range of banking needs of a customer in one department would help to improve the quality of service and achieve a deeper thrust in business in the desired direction. In order to expedite disposal of work, the existing scheme of delegation of financial and administrative powers at various operating levels is being reviewed in the light of job needs.

The concept of performance budgeting has been adopted in respect of critical areas of banking operations such as deposits, advances, earnings and expenses. Accordingly, each office is required to prepare a budget in the form of an annual plan to enable systematic development of business in each market segment. A management control system based on such a scheme of annual planning is expected to provide direction in regard to the Bank's activities and make the operating staff more conscious of what is expected of them in regard to business, costs and profits. As the annual plan for each unit would be projected on a month-to-month basis and its performance reviewed accordingly, it will be possible to initiate timely remedial action, where necessary, at various levels. The administrative set-up at the Local Head Offices and the Central Office is proposed to be changed to suit the management needs of the various aspects of the Bank's business. It is proposed to extend the scheme of reorganisation to other Circles by July 1, 1972. As a measure of further decentralisation, it has been decided to create two new Circles by upgrading the existing Regional Managers' Offices at Patna and Bhopal with effect from the 1st July 1972.

During the year, the Bank's Management Science Division developed computerised functional information systems for deposits, advances, branch information and for reciprocal business in respect of correspondent banks. An information system for small scale industrial advances has been designed. Studies have also been conducted in regard to cost of banking services, etc.

In order to meet the organisational needs and to utilise the training capacity to the best advantage, the whole training strategy of the Bank is being reviewed in depth by an expert committee. The Bank's Staff Training College introduced during the year modern training techniques in all the courses for improving the managerial skills of the Bank's officials. A Union-Management Programme was conducted at the College as an experiment under the guidance of behavioural scientists. Besides providing new insights into the mechanism of collaborative behaviour, the Programme helped to generate a spirit of mutual trust and understanding among the participants. The ideas gained in the Programme would prove useful in the work situation, marking the beginning of a new phase in industrial relations in the Bank.

Harmonious relations were maintained with the staff during the year. Discussions were held with the All-India State Bank of India Staff Federation and the All-India State Bank of India Supervising Staff Federation and issues affecting the service conditions of employees were amicably settled.

Participation Arrangements with the Bank of Bhutan

During the year, the Bank concluded arrangements for participation in the capital and management of the Bank of Bhutan. The two Banks will also extend preferential treatment to each other for agency services and the State Bank of India will handle the Indian business of the Bank of Bhutan.

The Fourth Plan

Mid-term Appraisal

The Planning Commission in its mid-term appraisal of the Fourth Plan presented to the Parliament on December 22, 1971, has given a detailed analysis of the actual trends in output in the first two years of the Fourth Plan and an assessment of the required growth rates in the remaining three years of the Plan. The appraisal has pin-pointed several disturbing trends in the economy and suggested that if immediate and vigorous measures are not taken to correct the sectoral imbalances and step up industrial growth, the Fourth Plan targets would not be reached.

Trends in Output

The table No. 1 shows the trends of output during 1969-70 and 1970-71 and requirements of growth from 1971-72 to 1973-74 to achieve the Fourth Plan targets.

TABLE NO. 1
Average Annual Rates of Growth

(Percentages)

Sector				Fourth Plan targets (Revised)	Actual performance in 1969-70 and 1970-71	Required growth rate in 1971-72 to 1973-74
1.	Agriculture	...	...	5.0	5.2	4.9
2.	Mining and manufacturing			7.7	4.1	10.1
	of which :					
	Mining and quarrying	...		8.0	2.3	11.9
	Large scale manufacture...			9.3	4.7	12.4
	Small scale manufacture	...		5.2	3.5	6.4
3.	Electricity, gas and water supply	...	...	9.3	8.7	9.7
4.	Construction	...	...	8.6	4.8	11.1
5.	Transport and communi- cations	...	...	6.4	4.9	7.4
6.	Real estate and ownership of dwellings	...	...	3.4	3.3	3.4
7.	Trade, storage, hotels, etc.	...		7.0	4.6	8.7
8.	Public administration and defence	...	...	2.0	7.9	— 1.7
9.	Banking, insurance and other services	...	...	4.7	4.7	4.7
10.	Net domestic product at factor cost	...	...	5.7	5.0	6.2

Agriculture

In agriculture, the average growth during the first two years of the Fourth Plan was 5.2 per cent per annum against a target of 5 per cent per annum. Though the overall performance has been satisfactory, there have been shortfalls in the output of cotton, jute and pulses. While the output of pulses has remained more or less stagnant, that of oilseeds in 1970-71 was only slightly higher than the base level. The break-through achieved in wheat has yet to make its impact felt on other crops. The outlook in respect of sugar is none too assuring, particularly in the context of the rising domestic consumption.

The achievement of annual growth of rate of 5.2 per cent in agriculture in the first two years of the Fourth Plan has had a narrow foundation and it is too early to say that a firm trend towards such growth rate has been established. There is also considerable unevenness among different States so far as the progress for food production is considered. A similar unevenness is found among various agricultural development programmes. In the first three years of the Plan, only 40 per cent of the targetted additions to irrigation potential and about 44 per cent of the planned additions to area actually irrigated have been made. The target for high-yielding varieties is likely to be fulfilled in the case of wheat, but shortfalls are expected in rice and jowar. Consumption of fertilisers has lagged considerably behind the targets. New programmes have now been included in the Plan for strengthening research and extension activities in relation to cotton and jute. Provision has been made for production and distribution of seed of short duration varieties of pulses with a view to propagating them as part of the multiple cropping programmes. Additional outlays have also been provided for increasing the exploitation of agricultural potential of selected command areas of major river valley projects. It is hoped that these measures will help to create conditions necessary for sustaining a high growth rate in agriculture. The required average annual growth rate in agriculture during 1971-72 to 1973-74 is 4.9 per cent and according to the appraisal, it is possible to realise this target, if the momentum of agricultural growth is maintained. Taking into account the recent performance of different crops, it is estimated that foodgrains production will fall short of the targetted 129 million tonnes by 4-7 million tonnes. The shortfall in fibres and oilseeds is likely to be relatively greater.

Industry

The overall performance of the industrial sector in the first half of the Fourth Plan was unsatisfactory. The rate of growth of industrial production was 6.6 per cent

in 1968-69 and 6.9 per cent in 1969-70. Thereafter, the growth rate declined to 3.5 per cent in 1970-71 and the early months of 1971-72 witnessed further deceleration. In the large-scale manufacturing sector, the growth has been only 4.7 per cent per annum during the first two years as against a target of 9.3 per cent. The small scale manufacture also witnessed a lower annual growth of 3.5 per cent against a target of 5.2 per cent. In order to achieve the Plan target, the mining and manufacturing sector would need to grow at an annual average rate of 10.1 per cent during 1971-72 to 1973-74. Considering the actual performance of mining and quarrying and large-scale manufacturing industries in 1971-72, a substantial shortfall in the targets of these sectors is unavoidable. But it is felt that only the small scale manufacturing sector, where the required annual growth rate during 1971-72 to 1973-74 is 6.4 per cent, may be able to realise the Plan target.

As for the selected industries in the core sector, excepting for alloy and special steel and agricultural tractors, there will be substantial shortfalls in the production of a number of industries as compared with the targets set for 1973-74. Thus in the industrial sector, some of the major shortfalls anticipated at the end of the Fourth Plan are steel ingots 2.5 million tonnes, finished steel 1.9 million tonnes, pig iron 1.0 million tonnes, aluminium 10,000 tonnes, copper 17,000 tonnes, nitrogenous fertilisers 7 lakh tonnes, phosphatic fertilisers 4.4 lakh tonnes, newsprint 85,000 tonnes, petroleum (crude throughput) 4.5 million tonnes, synthetic rubber 34,000 tonnes, etc. In regard to non-core industries, Plan targets are expected to be fulfilled in respect of a number of industries such as electric transformers, electric motors, paper and paper board, cement, automobile tyres, jute manufactures, sugar and vanaspati. However, there are likely to be shortfalls in many others, notably in cotton textile and cement

machinery, steel castings and forgings, diesel engines, bicycles, electric fans, sulphuric acid and cotton cloth.

The appraisal has pointed out that industrial production has been held back basically either because of under-utilisation of capacity or due to factors that have inhibited growth of capacity. If capacity has remained under-utilised, it is because there has been insufficient demand or shortages of raw materials, components, stores and spares or transport bottlenecks, irregular supply of power or disturbed industrial relations or management problems. There has also been a large proportion of infructuous licences as there was no balance in licensing as between established and new entrepreneurs, large and small entrepreneurs, public and private agencies and developed and backward areas. Besides licensing, financial difficulties arising out of rise in costs, shortage of steel and structural fabrication facilities and delays in the procurement of domestic and foreign plant and equipment have all hampered the erection of new capacity. As a result, industrial output has not increased at the targetted rate and vast opportunities for expanding industrial output provided by better agricultural years have been lost.

Investment in Industry

One of the major factors affecting the growth of industrial output has been the inadequacy of investment. This has not been sufficiently highlighted, but it becomes abundantly clear from the discussion of trends in creation of capacities in some of the key sectors given in the appraisal. The Fourth Plan envisaged a total investment of Rs. 3,050 crores on industry and minerals in the public sector and of Rs. 2,250 crores in the private and co-operative sectors. The actual public sector expenditure during the first three years of the Fourth Plan was only Rs. 1,473 crores. Trend of investment in major industries can be seen from the following table.

TABLE NO. 2.
Trend of Investment in Major Industries

(Crores of rupees)

Sector			Fourth Plan outlay	Actual/anti- cipated expenditure during 1969-70 to 1971-72	2 as per- centage of 1
			1	2	3
1.	Iron and steel ...	...	1,053.32	542.84	51
2.	Non-ferrous metals	...	247.77	76.47	30
3.	Iron-ore	...	88.34	34.43	39
4.	Fertilisers	...	493.73	197.64	40
5.	Petroleum including refineries	...	303.20	197.05	65
6.	Petro-chemicals	...	77.50	35.95	46

Financing of the Public Sector Plan

To a certain extent, the slower tempo of investment could be attributed to paucity of resources. According to the appraisal, total resources available during the Plan period at Rs. 15,898 crores will be almost the same as the original Fourth Plan estimate of Rs. 15,902 crores. It is, however, candidly admitted in the appraisal that the aggregate resources in real terms (after taking into account the price rise) would amount to Rs. 14,350 crores or about 10 per cent less than the original estimates. Assuming that even if the current year's target is fulfilled, total resource mobilisation during the first three years of the Fourth Plan would amount to Rs. 8,150 crores or 51 per cent of the total Plan outlay of Rs. 15,898 crores. Thus if the Plan has to be salvaged, it would entail mobilisation of Rs. 7,748 crores or 49 per cent of the total during the next two years. This is a stupendous task and the appraisal has not given any indication as to how this is to be achieved.

As the things stand, the balance from current revenues is likely to show deterioration by as much as Rs. 929 crores due to an increase in expenditure on defence, revision of emoluments of Government employees, food subsidy and relief to evacuees from Bangla Desh, non-Plan schemes for providing rural employment, etc. Though tax and non-tax revenues have been buoyant than envisaged earlier, they would offset only a part of the deterioration caused by the above factors. The contribution of railways is substantially below expectations; the shortfall is expected to be of the order of Rs. 118 crores over the entire Plan period against a contribution of Rs. 265 crores originally envisaged. Contribution of other public enterprises is also likely to show a shortfall of Rs. 285 crores as compared to the original estimate. The larger market borrowings and additional taxation have, to some extent, made good the resources gap. Over the Plan period, net receipts from market borrowings are placed at Rs. 1,575 crores, which are about Rs. 160 crores higher than the original estimate. Considering the encouraging trends in market borrowings in recent years, prospects of reaching the target are reasonably good. Additional resource mobilisation already undertaken by the Centre is expected to yield over the Fourth Plan period Rs. 2,300 crores (net of the States' share), thus exceeding the original Plan target of Rs. 2,100 crores. Recourse to deficit financing nevertheless was sizeable and has almost reached (Rs. 806 crores) the Plan target of Rs. 850 crores in the first three years itself. The appraisal has estimated deficit financing of Rs. 200 crores a year in the next two years, so that the total for the Plan period would be Rs. 1,200 crores against Rs. 850 crores envisaged originally. However, it appears that deficit financing in the next two years is likely to be substantially larger than that estimated in the appraisal. Revised estimates of resources for the public sector Plan are given in the following table :

TABLE NO. 3
Financing of the Public Sector Plan

(Crores of rupees)

	Fourth Plan estimates (Revised)	Total for the first three years (1969-70 to 1971-72)	Requirements during the next two years (1972-73 and 1973-74)
1. Domestic Budgetary Resources	7,681	3,902	3,779
2. Additional Resource Mobilisation	3,728	1,335	2,393
3. Loans from LIC and Market Borrowings of State Enterprises (Gross)	746	412	334
4. Total Domestic Budgetary Resources (1+2+3)	12,155	5,649	6,506
5. External Assistance	2,540	1,695	845
6. Deficit Financing	1,203	806	397
7. Total Resources	15,898	8,150	7,748

Savings and Investment Rates

The need to step up investment to achieve the production targets set out in the Plan in the context of likely shortfalls in resource mobilisation and the urgency to keep down deficit financing imply a major thrust in savings effort. The Fourth Plan aims at raising investment from 9.9 per cent of net domestic product (NDP) at market prices in 1968-69 to 13.1 per cent in 1973-74 and the rate of savings from 8 per cent to 11.9 per cent, implying a decline in dependence on foreign savings from 1.9 per cent to 1.2 per cent. In fact there has been hardly any change either in the rate of investment or savings in terms of NDP in the first two years of the Fourth Plan. The appraisal makes a strong and well-reasoned plea for raising the public sector savings from the level of 0.8 per cent in 1971-72 to 2.9 per cent in 1973-74. The increase

in the savings of the public sector implies increases in tax revenues, surpluses of the public sector enterprises and the saving propensity of the public sector. Between 1965-66 and 1970-71, average rate of savings of the public sector as measured by the ratio of net public savings to net disposable public income declined from 21.6 per cent to 9.5 per cent. In 1971-72, there was a further deterioration in the savings ratio, when it declined to 6.9 per cent. Considering the current trends, the sharp rise envisaged in net public savings ratio to 16.7 per cent in 1972-73 and to 21.1 per cent in 1973-74 is unlikely to be realised.

Total private savings for the Plan period are now estimated at Rs. 14,693 crores (at 1968-69 prices) against the Plan target of Rs. 14,160 crores. However, there would be marginal shortfall in the resources available to the private sector because of the larger draft of the public sector on private savings, as can be seen from the following table.

TABLE NO. 4
Resources for Private Investment
at 1968-69 Prices

(Crores of rupees)

					Fourth Plan Targets (Original)	Revised Estimates as per Mid-term Appraisal
1.	Private savings	...	...	...	14,160	14,693
2.	Public sector's draft on private savings	...	...	...	5,695	6,075
3.	Private sector's draft on foreign savings	...	...	...	30	— 249
4.	Resources for private investment (1—2+3)	...	...	...	8,495	8,369

Total resources available to the private sector for investment would, however, be lower at Rs. 8,369 crores against the Plan target of Rs. 8,495 crores at 1968-69 prices. The draft of the public sector on private savings during the Plan period would be higher at Rs. 6,075 crores against the earlier estimate of Rs. 5,695 crores. This again is based on the assumption that the public sector's draft on private savings will be stabilised for the remaining period of the Plan around the level estimated for 1971-72. As a matter of fact, the public sector's draft on private savings is likely to increase to make good the shortfall in the resources of the public sector as well as to meet the increased commitments arising out of the Indo-Pak war and aid to Bangla Desh. The resources available for investment in the economy are shown below :

TABLE NO. 5
Resources for Investment in the Economy
at 1968-69 Prices

	(Crores of rupees)					
	1969-70	1970-71	1971-72	1972-73	1973-74	1969-74
1. Domestic Savings	3,175	3,283	3,447	4,147	4,727	18,779
(a) Public savings	470	581	517	1,077	1,441	4,086
(b) Private savings	2,705	2,702	2,930	3,070	3,286	14,693
2. Draft on foreign savings	2985	503	540	431	384	2,156
(a) Public sector	559	512	534	424	376	2,405
(b) Private sector	— 261	— 9	6	7	8	— 249
3. Resources for investment in the economy (1+2)	3,473	3,786	3,987	4,578	5,111	20,935

Foreign Trade

As against the targetted growth rate of 7 per cent, the country's exports rose by 4.1 per cent to Rs. 1,413 crores in 1969-70. In the following year, total exports at Rs. 1,535 crores recorded a rise of 8.6 per cent. They are expected to rise to Rs. 1,660 crores (by 8.1%) in 1971-72, to Rs. 1,760 crores (by 6%) in 1972-73 and to Rs. 1,907 crores (by 8.4%) in 1973-74. During the first 9 months of 1971-72, however, exports showed a rise of 5.2 per cent only over the corresponding period of 1970-71. Considering these trends, increasing efforts will have to be made for export promotion so as to fulfil the Plan targets. Imports, on the other hand, have been increasing at a faster rate. Imports amounted to Rs. 1,583 crores and Rs. 1,669 crores during 1969-70 and 1970-71 respectively. For the next three years 1971-72 to 1973-74, they have been estimated at Rs. 2,106 crores, Rs. 2,169 crores and Rs. 2,383 crores respectively, so that the total import bill during the Fourth Plan would amount to Rs. 9,910 crores. During the first 9 months of 1971-72, imports registered a growth of 18.6 per cent over the corresponding period of 1970-71. However, in view of the suspension of foreign aid by some countries and consequent need for greater self-reliance, the country will have to keep its import requirements to the bare minimum.

Conclusion

The Planning Commission's mid-term appraisal of the Fourth Plan has made a detailed assessment of the present state of the economy. Although various corrective measures have been suggested to improve the performance of the economy in the remaining years of the Plan, it has nowhere spelt out how they should be implemented. A welcome feature of the document is its efforts to assess the performance in physical terms rather than financial outlays. It discusses the actual performance in relation to the Plan targets in respect of each of the sectors. This assessment of sector-wise trends in the context of a macro-economic framework makes the analysis more meaningful.

However, the utility of the document as a corrective action to reset the economy on even keel is rather limited. Firstly, three of the five years are already over and it is too late for major investment adjustments to have their impact felt during the remaining years of the Fourth Plan. Secondly, the country had to face entirely new set of factors, which it could not have taken into account earlier such as the influx of refugees and war with Pakistan. The Minister of Planning admitted in his statement to the Parliament that 'it would not be realistic at the present stage to formulate a reasonably clear outline of the prospects for the remaining period of the plan'. The shortfall in the financial target of the Plan is estimated to be of the order of Rs. 1,300 crores. Besides, requirements of new commitments that have arisen would need about Rs. 1,500 crores. A crash programme has been outlined to gear up the economy, which in theory, is unexceptionable since its main focus is on price stability, self-reliance, increased production coupled with restraint on consumption of non-essential commodities, vigorous mobilisation of savings and a regime of fiscal discipline especially for the States.

Current Topics

Prices in 1971

Notwithstanding a reasonably comfortable position in the field of agricultural production, prices continued to rise in 1971. However, a redeeming feature was that the increase in the price level during the year was less than that in the previous year. The index of wholesale prices (1961-62 = 100) at 187.5 at the end of 1971 showed a rise of 3.5 per cent over the level a year ago, whereas it had registered an increase of 5.3 per cent during 1970. An analysis of the index for the year 1971 shows that prices rose steadily between February 20, 1971 and September 4, 1971, during which period the index moved up from 181.0 to 192.8. Thereafter, it declined gradually and stood at 187.5 on December 25, 1971.

Index Numbers of Wholesale Prices

(1961-62=100)

Last week of	December 1969	December 1970	December 1971	Percentage Variation of	
				2 over 1	3 over 2
	1	2	3	4	5
I. Food articles	195.6	198.9	206.4	+ 1.7	+ 3.8
(i) Rice	186.1	188.4	195.6	+ 1.2	+ 3.8
(ii) Wheat	224.7	207.2	213.6	— 7.8	+ 3.1
(iii) Pulses	253.0	248.1	288.9	— 1.9	+16.4
II. Liquor and tobacco	187.3	185.3	200.1	— 1.1	+ 8.0
(i) Tobacco raw	175.4	152.1	156.5	—13.3	+ 2.9
(ii) Tobacco manufactured	199.5	218.9	245.6	+ 9.7	+12.2
III. Fuel, power, light and lubricants	155.9	162.6	174.6	+ 4.3	+ 7.4
Coal	167.9	167.9	175.4	—	+ 4.5
IV. Industrial raw materials	180.5	204.0	187.9	+13.0	— 7.9
(i) Cotton raw	166.0	242.2	210.1	+45.9	—13.3
(ii) Jute raw	135.3	142.5	126.0	+ 5.3	—11.6
(iii) Groundnuts	187.1	202.4	193.9	+ 8.2	— 4.2
V. Chemicals	185.6	189.4	201.5	+ 2.0	+ 6.4
VI. Machinery and transport equipment	138.5	149.2	161.7	+ 7.7	+ 8.4
VII. Manufactures	146.0	158.7	168.9	+ 8.7	+ 6.4
A. Intermediate products	162.7	182.0	198.3	+11.9	+ 9.0
B. Finished products	142.0	153.1	161.8	+ 7.8	+ 5.7
(i) Cotton manufactures	135.8	152.3	162.9	+12.2	+ 7.0
(ii) Jute manufactures	168.3	185.3	190.5	+10.1	+ 2.8
(iii) Iron and steel manufactures	149.3	165.1	180.9	+10.6	+ 9.6
VIII. All commodities	172.0	181.2	187.5	+ 5.3	+ 3.5

From 181.2 at the end of 1970, the general index of wholesale prices rose to 187.5 at the end of 1971. The rise in the index was accounted for by all the groups excepting 'industrial raw materials', which showed a decline of 7.9 per cent in contrast to a sharp rise of 13.0 per cent in the previous year. A perceptible fall in the prices of raw cotton, raw jute and groundnuts from the high levels reached in the previous year was responsible for the fall in the index of 'industrial raw materials' in 1971. Except 'manufactures', all other groups showed larger increases than in the preceding year. 'Machinery and transport equipment' recorded an increase of 8.4 per cent, 'fuel, power, light and lubricants' of 7.4 per cent and 'food articles' of 3.8 per cent as compared with the increases of 7.7 per cent, 4.3 per cent and 1.7 per cent respectively in 1970. The rise of 8.0 per cent and 6.4 per cent in the prices of 'liquor and tobacco' and 'chemicals' respectively during the year has to be viewed against the background of a fall of 1.1 per cent and a rise of 2.0 per cent respectively in the previous year. The increase in the prices of 'manufactures' at 6.4 per cent in 1971, on the other hand, was lower than the rise of 8.7 per cent in 1970.

Though the production of foodgrains at 107.8 million tonnes in 1970-71 was higher by 8.3 million tonnes than in the previous year and the stocks at the end of December 1971 at 7.9 million tonnes were higher by 2.5 million tonnes than those at the end of 1970, the generally satisfactory picture was not reflected in the prices of 'food articles'. While the production of all the cereals excepting jowar increased, the output of pulses was marginally lower than in 1969-70. A sizable increase in the price of pulses (16.4%) was mainly responsible for the rise in the prices of foodgrains group as a whole in 1971. Besides, the heavy influx of refugees from Bangla Desh and droughts and floods in some parts of the country put some pressure on the prices of foodgrains. Consequently, the index of 'food articles' recorded a more than two-fold rise of 3.8 per cent in 1971 as compared to a nominal rise of 1.7 per cent in 1970.

The impact of the rise of 8.0 per cent in the prices of 'liquor and tobacco' on the general price level is of less consequence considering the low weightage assigned to this group in the computation of the general index.

Among industrial raw materials, prices of raw cotton declined by 13.3 per cent as compared with a rise of 45.9 per cent in 1970. Prices of raw jute and groundnuts also fell by 11.6 per cent and 4.2 per cent respectively as against a rise of 5.3 per cent and 8.2 per cent respectively in the previous year.

Over the year, the index of 'manufactures' showed a smaller rise of 6.4 per cent than the rise of 8.7 per cent in 1970. The increase in the case of intermediate products (9.0%) was larger than that in the case of finished products (5.7%). Among finished products, cotton manufactures, jute manufactures and iron and steel manufactures recorded increases. Though the rise was smaller in all the three cases than in the previous year, iron and steel manufactures recorded the highest increase of 9.6 per cent followed by cotton manufactures (7.0%) and jute manufactures (2.8%).

The uptrend in prices witnessed in 1971 is a matter for concern especially when we take into account the increase in agricultural production and the fall in the prices of industrial raw materials. As seen earlier, the reasonably comfortable position on the food front did not result in a fall in the 'food articles' index, mainly due to a steep rise in the prices of pulses and the influx of refugees from Bangla Desh. The increase in the price index of manufactures, despite a levelling off in the price index for raw materials, is mainly due to the time-lag between the fall in the prices of raw materials and its impact on the prices of finished goods.

The fall in the prices of industrial raw materials was not entirely due to a rise in their production. In point of fact, cotton and jute suffered substantial declines in out-

put in the 1970-71 season. Production of cotton in 1970-71 at 45.6 lakh bales was less by 6.9 lakh bales than in the 1969-70 season. As regards jute (including mesta), its production amounted to 61.4 lakh bales in 1970-71 as against 67.8 lakh bales in 1969-70. Among industrial raw materials, only oilseeds recorded a significant rise in production. The production of major oilseeds during 1970-71 at 9.19 million tonnes registered a sharp increase of 18.8 per cent over the 1969-70 output of 7.73 million tonnes.

The reason for the fall in the prices of raw jute was mainly due to lower mill demand owing to labour troubles such as the strike by the bargemen and stevedore labour of the Calcutta port and the strike by jute mill workers. Expectations of a better crop in view of favourable weather also aided the trend. The continuous rise in cotton prices witnessed in 1970, as a result of tight supply position, was halted in January 1971 and prices registered a decline partly due to the poor mill demand in the face of good arrivals. Reflecting this and the prospects of a better crop (60 lakh bales) in the 1971-72 season, cotton prices at the end of December 1971 were lower by 13.3 per cent than those a year ago.

Production of saleable steel at 4.4 million tonnes in 1971 was lower by 5.0 per cent than in 1970. Disturbed industrial relations at Durgapur, Rourkela and IISCO plants, inadequate preventive maintenance and repairs, frequent breakdowns of plants and insufficient supply of raw materials such as refractories and limestone were responsible for the decline in the output of steel. Steel is not only a basic raw material for a number of industries but also a significant intermediate good for a variety of industries. Scarcity of steel was mainly responsible for the highest rise of 8.4 per cent in the index of 'machinery and transport equipment'.

One of the most important reasons for the pressure on prices is the faster rate of monetary expansion than that of real output. No doubt, in a developing economy, the rate

of the growth of money supply should be slightly more than that of real income growth owing to the increasing monetisation of the economy and with the increase in incomes, the community's cash balance requirements also tend to increase rather fast. However, the expansion of money supply in the past few years was much larger than could be sustained by the growth in real output. While the national income (at 1960-61 prices) increased by 5.3 per cent and 4.7 per cent respectively in 1969-70 and 1970-71, the rate of increase in money supply during these two years was almost double at 10.5 per cent and 11.7 per cent respectively. During the calendar year 1971, money supply with the public increased by 13.0 per cent on top of a rise of 12.5 per cent in the previous year. The major factor responsible for the increase in money supply in 1971 was the sharp expansion of net bank credit to the Government sector. The larger resort to bank credit by the Government was necessitated by the mounting expenditure on Bangla Desh refugees, growing defence requirements and Indo-Pak conflict. The overall budgetary deficit of the Centre and the States increased from Rs. 415 crores in 1970-71 to Rs. 500 crores in 1971-72.

The Government took a number of measures to hold the price line. The Bank rate was raised from 5 per cent to 6 per cent with effect from the close of business on January 8, 1971. Besides, the Reserve Bank of India raised the minimum net liquidity ratio from 33 per cent to 34 per cent. In order to stimulate savings of the community, the rates of interest on deposits of various maturities were suitably raised with effect from January 11, 1971.

Following the increase in foodgrains production for the third year in succession, procurement of foodgrains was sizeably stepped up and the controls on movements of all foodgrains except rice were generally removed. An important development relating to jute policy was the establishment of the Jute Corporation, which was registered on April 2, 1971, under the Companies Act. To begin with, the Corporation would confine its operations to purchases of raw

jute so as to ensure minimum support price to the growers and would also build a buffer stock of raw jute through internal procurement and imports, if necessary. Futures trading in groundnut oil remained banned. Trading in non-transferable specific delivery contracts continued to be permitted through recognised associations and was subject to a scheme of regulation. In respect of castorseed and linseed futures, trading in new contracts was allowed with the permission of the Forward Markets Commission, which prescribed margins and other restrictions. Physical controls were kept under constant review. While price control on sugar was lifted, the distribution of the products of steel re-rollers and of agricultural tractors was brought under regulation during the year. Taking into account the supply and prices position of agricultural commodities like cotton, oilseeds, vegetable oils and vanaspati, the Reserve Bank of India flexibly operated selective credit controls so as to meet the requirements of the changing situation.

In order to mitigate the severe shortage of steel, imports were considerably liberalised in regard to the requirements of the priority sectors. Import policy for 1971-72 provided special facilities for import of raw materials to quicken the revival of closed engineering units, particularly in West Bengal. For creating additional capacity in the steel industry, the work relating to the Bokaro plant has been intensified. A "crash programme" was launched in 1971 to achieve in the intermediate stage, a capacity of 2.5 million tonnes of steel ingots by the end of the Fourth Plan. It was decided to expand the capacity of the Bhilai steel plant from 2.5 million tonnes to 4.2 million tonnes and also of the Durgapur Alloy Plant from 60,000 tonnes to 1,80,000 tonnes. Advance action in respect of the proposed three new public sector plants — Salem, Hospet and Visakhapatnam — has been initiated. Besides, a task force has been constituted for each of the public sector steel plants to identify and deal quickly with the problems coming in the way of increased production.

Legal Decisions

On Banking

Pledge or Pawn of Goods—Rights of Pledgee or Pawnee

The Bank of Bihar

Appellant (Plaintiff)

vs.

The State of Bihar & Others

Respondents (Defendants)

AIR 1971 Supreme Court 1210

Contributed by N. K. Randeria

In this appeal, the rights of pledgee or pawnee came for consideration of the Court.

The bank had granted certain advances to defendant No. 2 by way of cash credit against the security of pledge of different varieties of sugar, which was stored in the go-

down of defendant No. 2, the key of the lock of which was in the custody of the bank. In December 1969, the Rationing Officer and the District Magistrate, Patna, under the cover of an order of seizure made by the Government of Bihar (defendant No. 1), broke open the lock of the godown and forcibly removed and sold 1,818 bags of sugar weighing about 5,000 maunds without making any payment to the bank. The sale proceeds were deposited in the Treasury, which were later on attached under the orders of the Certificate Officer, Patna, under the Public Demands Recovery Act, on account of arrears of sugar cess payable by one Bhita Sugar Factory with which the defendant No. 2 had entered into arrangements, pursuant to which the defendant No. 2 had come into possession of the aforesaid bags of sugar. In the suit filed by the bank, it prayed for a decree against the defendant No. 1 for return of 1,818 bags of sugar, and alternatively for a recovery of Rs. 1,81,700-9-3 with interest by way of damages for illegal removal and detention of sugar. Alternatively, a decree for Rs. 93,910-10-9 was prayed for against defendants.

The Trial Court held that the order of seizure was valid, but the right of the bank as pledgee could not be extinguished by seizure of the sugar in its possession, and though the attachment order of the Certificate Officer was legal and binding upon the defendant No. 2, it was not binding on the bank. A decree for Rs. 93,910-10-9 was passed against defendant No. 1.

Being aggrieved by the order of the Trial Court, the Government of Bihar filed an appeal to the High Court. The High Court held that in view of the findings that the bank had not been wrongfully deprived of the sugar or its price on account of lawful seizure, the bank was not entitled to any decree against the Government.

Being aggrieved by the order of the High Court, the bank preferred an appeal to the Supreme Court. The Supreme Court allowed the appeal and observed as follows:

- (i) There was no difference between the English Law and the Law in India relating to the rights of the pawnee vis-a-vis other unsecured creditors of the pawnor.
- (ii) The pawnee had a special property or a special interest in the goods pledged. The pawnee could compel the payment of a debt or could sell the goods when the right to do so arose. The special property or interest was distinct from mere right of detention, which the holder of a lien possessed. The pawnee might assign his special property or interest in the goods.
- (iii) The rights of the pawnee, who had parted with money in favour of the pawnor on the security of the goods, could not be extinguished by the goods being lawfully seized by the Government.
- (iv) So long as the claim of the pawnee was not satisfied, no other creditor of the pawnee had any right to take away the goods or its price.
- (v) The Government was bound, after seizure, to pay the amount due to the bank.
- (vi) By a mere act of lawful seizure, the Government could not deprive the bank of the amount, which was secured by the pledge of goods.
- (vii) The pledge of goods was not meant to replace the liability under the Cash Credit Agreement. It was intended to give the bank a primary right to sell the goods in satisfaction of the liability of the pawnor. Therefore, the right of the bank could not be extinguished by seizure of goods in possession of the bank.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 25-2-1972	A Month Ago 28-1-1972	A Year Ago 26-2-1971
State Bank of India			
Total Deposits :	1,531 · 2	1,516 · 3	1,295 · 7
Demand (Exclusive of inter-bank transactions)	688 · 7	683 · 2	627 · 1
Time (-do-)	842 · 5	833 · 1	668 · 6
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,158 · 8	1,182 · 0	1,109 · 9
Total Investments	415 · 1	415 · 0	341 · 1
Subsidiary Banks			
Total Deposits :	405 · 9	398 · 2	351 · 5
Demand (Exclusive of inter-bank transactions)	164 · 8	160 · 9	147 · 3
Time (-do-)	241 · 1	237 · 3	204 · 2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	326 · 1	322 · 6	296 · 5
Total Investments	90 · 7	90 · 7	71 · 8
All Scheduled Commercial Banks			
Total Deposits :	6,935 · 3	6,898 · 0	5,880 · 6
Demand (Exclusive of inter-bank transactions)	2,964 · 9	2,946 · 7	2,584 · 3
Time (-do-)	3,970 · 4	3,951 · 3	3,296 · 3
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc. ..	5,141 · 9	5,096 · 3	4,640 · 7
Total Investments	1,646 · 6	1,658 · 2	1,358 · 0

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	Decem- ber 1971	Septem- ber 1971	Decem- ber 1970
State Bank of India			
No. of Offices ...	2,477	2,350	2,112
Finance to Small Scale*			
Industries :			
No of Units Assisted	38,489	36,858	34,084
Limits Sanctioned ...	262.12	253.71	246.51
Outstandings ...	176.88	168.91	151.76
Direct Finance for			
Agriculture :			
No. of Accounts ...	1,93,852	1,97,251	2,16,155
Limits Sanctioned ...	68.91	68.77	74.07
Outstandings ...	47.70	46.45	51.81
Indirect Finance for			
Agriculture :			
No. of Accounts ...	920	925	1,047
Limits Sanctioned ...	96.78	93.10	177.11
Outstandings ...	41.07	49.73	70.56
Export Finance :			
Outstandings ...	108.05	114.60	92.93
Subsidiary Banks			
No. of Offices ...	1,304	1,259	1,149
Finance to Small Scale*			
Industries :			
No. of Units Assisted	19,650	19,364	17,212
Limits Sanctioned ...	90.35	89.34	84.91
Outstandings ...	50.19	47.53	44.54
Direct Finance for			
Agriculture :			
No. of Accounts ...	65,414	67,257	65,645
Limits Sanctioned ...	31.97	30.96	33.46
Outstandings ...	21.15	21.90	23.53
Indirect Finance for			
Agriculture :			
No. of Accounts ...	801	713	656
Limits Sanctioned ...	16.62	17.62	26.51
Outstandings ...	6.97	7.29	11.92
Export Finance :			
Outstandings ...	14.03	12.92	11.86

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on (25-2-1972)	A Month Ago (28-1-1972)	A Year Ago (26-2-1971)
(Amounts in rupees crores)			
1. Money Supply with the Public ...	7,895	7,809	7,036
(a) Currency with the public ...	4,781	4,708	4,323
(b) Deposit money with the public	3,114	3,101	2,713
	January 1972	December 1971	January 1971
2. Foreign Exchange Reserves ...	876.4	802.1	796.9
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	5-6
(b) State Bank of India Advance Rate ...	8½	8½	7½-8½
(c) State Bank of India Hundi Rate ...	8¾-10½	8¾-10½	9½
(d) Call Money Rate (Bombay) ...	7.5	4.8	7.6
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

		June 1971	May 1971	June 1970
4.	Index Number of Industrial Production (1960=100)			
	General Index ... (Adjusted)	188.4	181.8	182.4
		Week ended (26-2-1972)	Week ended (29-1-1972)	Week ended (27-2-1971)
5.	Index Numbers of Wholesale Prices (1961-62=100)			
	All Commodities ...	189.7	190.2	180.6
	Food Articles ...	210.2	209.9	197.9
	Liquor and Tobacco	202.4	203.4	186.7
	Fuel, Power, Light and Lubricants	175.2	175.2	162.8
	Industrial Raw Materials ...	184.7	190.1	197.5
	Chemicals ...	198.5	199.4	187.3
	Machinery and Transport Equipment ...	162.4	162.1	151.2
	Manufactures ...	172.2	171.8	160.2
		December 1971	November 1971	December 1970
6.	Consumer Price Index Numbers for Industrial Workers (1960=100) ...	195	197	186
7.	Foreign Trade			
		(Rupees in crores)		
	Total imports ...	188.5	159.6	134.7
	Total Exports (including re-exports) ...	143.6	134.8	151.6

**Statement about Ownership and Other Particulars of the
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(Rule No. 8)

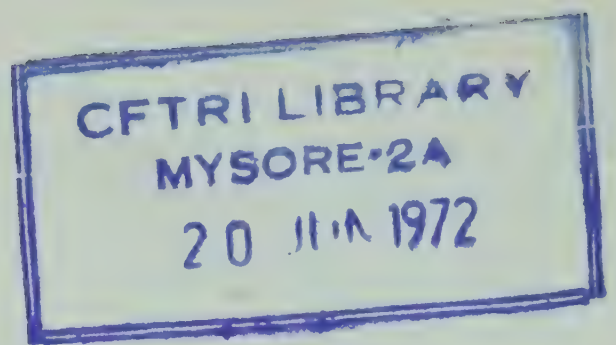
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I, Babasaheb Bhausaheb Pawar, hereby declare that the particulars given above are true to the best of my knowledge and belief.

1st March 1972.

(Sd.) B. B. PAWAR
Signature of the Publisher

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।



STATE BANK OF INDIA MONTHLY REVIEW

VOLUME XI

NUMBER 3

MARCH 1972

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Chairman's Speech

It gives me great pleasure to welcome you all to the seventeenth annual general meeting of the State Bank of India, particularly because this is the first opportunity I have had — or any chairman of the Bank has had — of meeting the shareholders in Calcutta. As you are aware, the first 14 annual meetings were all held in Bombay. In 1970 we broke that monopoly and convened the meeting in Ahmedabad. It is the intention of your Board of Directors that in future years these meetings should be held in different cities as often as practicable, taking into account the likely attendance of the shareholders.

On an occasion like this, when we have gathered to review our business operations during 1971, one feels impelled to refer to the significant events that culminated, as it were, in a regeneration of what is basic in our national character. We have witnessed a victory for Truth and Justice under the inspired leadership of our Prime Minister, Shrimati Indira Gandhi. The unseen hand of the Supreme guides the destiny of our nation, and, while we pay homage to those who fought and laid down their lives in the cause, we do so in the sincere hope that we shall make ourselves worthy of a much more glorious future that awaits us.

Working Results

The annual report including the balance sheet as on the 31st December 1971 and the profit and loss account for 1971 is already in your hands. I am happy to state that,

as was hoped for by us last year, our working has shown better results. The profit figures for 1970 and 1971 are, however, not comparable; this is due to the fact that the bonus paid to staff, instead of being treated as an appropriation from balance of profits as in previous years, has been shown as a charge thereon. This is as it should be, because bonus is no longer an ex gratia payment and is, in point of fact, an item of expenditure on staff, like any other.

Fall in Credit Demand

As brought out in the annual report, the deposit growth of the Bank during 1971 was higher than in the previous year while its pace of credit expansion slackened. By and large this would appear to have been true of the entire banking system. During the year the Bank improved its liquidity, as indeed it had been called upon to do during the earlier months of stringent money conditions, and the credit/deposit ratio came down. In the latter part of the year, the Bank did not suffer from any lack of resources in dealing with credit demand from the various sectors of the economy.

Small Scale Industries

Our loans to small scale industries went up during the year by Rs. 25 crores. The pace of growth was lower than in the previous year; this could be attributed to the impact on small scale industry of the decline in the growth of industrial production. There is evidence to show that the credit needs of small scale industrial units were, by and large, being met.

Employment-oriented Lending

Our most important scheme for generating self-employment relates to the financing of technician entrepreneurs. The number of such entrepreneurs securing assistance from our organisation kept rising in 1971 at the rate of roughly one for every working day. At the end of the year, we had 807 entrepreneurs on our books with credit limits aggregating Rs. 10 crores. We know a lot more still remains to

be done, and are making conscious efforts to make ourselves more useful and effective in helping young men seeking to set up their own establishments.

We have, in addition, selected 60 pilot centres throughout the country with a view to gaining first hand experience in self-employment-oriented lending for individual artisans, craftsmen, etc. We propose to so organise ourselves at these pilot centres that anyone — particularly the educated unemployed — approaching the Bank with a proposition that gives evidence of a sincere desire and effort to venture on gainful and profitable self-employment, will receive sympathetic and objective response. Creation of fresh and/or gainful employment opportunities requires a high degree of almost total planning and complete co-ordination amongst various governmental and financial agencies in any given region. Our work in the pilot centres will, we expect, receive the support needed from State authorities and help to throw up the likely impediments in productive lending and in the designing of suitable promotional measures for progressive extension of our activities in this direction to many more centres.

Financing of Agriculture

I made the point last year that commercial banks should adopt the policy of area approach in financing agriculture. As for the State Bank Group, I indicated our intention to select about 150 Intensive Centres throughout the country. We have already identified 67 of these, mainly in areas covered by the Government programmes for small farmers and other weaker sections of the rural population. Forty-six of these Centres have been cleared with the concerned State Governments; such consultations with the State Governments are essential for the sake of ensuring co-ordination with other agencies connected with agricultural development. Each of these centres is expected ultimately to cover anything up to 100 villages.

At each Intensive Centre we propose to open an Agricultural Development Branch, supported by technical and

other field staff. We already have the Reserve Bank's approval for the opening of 33 Agricultural Development Branches, and 20 such branches have been opened. Outside the Intensive Centres Scheme, our programme of Village Adoption is also gaining momentum, about 2,400 villages having so far been adopted.

As each Intensive Centre is identified, the surrounding area is surveyed by our technical staff and special schemes are prepared to provide agricultural finance in accordance with the assessed needs of the cluster(s) of villages taken up for attention in the first phase. Further clusters of villages would be similarly covered in later stages. Schemes will be tailor-made to cover the special requirements of individual groups of villages; the objective will be to find out how best the Bank's credit should be invested to create surplus income for the farmers, out of which they would not only be able to repay the bank loans but also improve their living standards, and the economy of the region.

The magnitude of finance required for this purpose all over the country will be stupendous. The term loan requirements for agricultural development schemes around each Agricultural Development Branch may be well over Rs. 2 crores even on a very conservative basis. If we were to take the total requirements at one centre at even Rs. 1 crore, the total term loan requirements at the proposed 150 centres will aggregate about Rs. 150 crores, and this in addition to crop loans and finance for allied agricultural and non-agricultural activities. In view of the long-term nature of these investments we shall naturally lean heavily on the Agricultural Refinance Corporation. The importance of this lies not only in financial support that will enable us to maintain our liquidity, but, even more so, in the benefit we shall consequentially derive by subjecting our schemes to a second look at the hands of technical experts of the Agricultural Refinance Corporation. We have already submitted to the Corporation schemes involving a total outlay of well over Rs. 50 crores and approvals of these have started flowing in.

One major problem which is bedevilling our programme for opening Agricultural Development Branches relates to co-ordination with the co-operative banks and demarcation of the respective areas. Co-operatives are spread all over the country, although they have not been successful everywhere. Even in States which are well developed in this field there are gaps and inadequacies which the commercial banks can help to fill. Where co-operatives have done substantial lending, or have programmes to do so, it will be inadvisable for commercial banks to come into the picture. Elsewhere, to avoid overlapping of efforts and the risk of over-exploitation of the groundwater potential, it is necessary to identify villages, in clusters, which could form the area of operations of different institutions. Our experience, repeated over a number of places, is that although we expend much effort in identifying the areas of operations of our Agricultural Development Branches, either the State Government's clearance is not promptly forthcoming, or, if that hurdle is crossed, the co-operative land development bank is not agreeable to area demarcation. It seems to me that a high-level body at the State level — one for each State — should be formed without delay and charged with the responsibility for the much needed co-ordination in this respect and for resolution of wasteful conflicts. I venture to suggest that the Reserve Bank of India, as the apex body for agricultural credit operations throughout the country, might perhaps take the initiative in instituting these arrangements as soon as possible.

Yet another problem in this field relates to the legal disabilities of the commercial banks. The important ones arise from (i) legal obstacles in the way of the farmers raising loans against mortgage of land; (ii) heavy stamp duty and registration fees on the creation of mortgages; (iii) cumbersome and time-consuming processes involved in the creation of mortgages; and (iv) the statutory prior charge which co-operatives enjoy over the farmers' land. The Expert Group appointed by the Reserve Bank, of which I had the privilege of being the Chairman, went into this matter in great detail and has made several recommen-

dations with a view to removing the various legal disabilities of commercial banks in the financing of agriculture. This Group took pains to suggest a Model Bill which, if enacted, would save the State Governments the labour involved in searching all the relevant current legislation and finding out what all amendments would be called for. Both the Reserve Bank of India and the Government of India have supported the recommendations of the Expert Group, and have urged the State Governments to take steps to adopt the Model Bill. I would appeal to the State Governments to give evidence of their keenness for commercial banking support to agriculturists by expediting the necessary amending legislation. Surely it is they who are concerned more than anyone else.

Expansion of Branch Network

On the expansion of our branch network, also, our record has been good. In 1970 the commercial banks opened as many as 2,137 offices, followed by another 1,805 in 1971. In this two-year period, the State Bank also increased the network of its offices by 814, or by almost half as many as were in existence at the end of 1969. The Bank and also its Subsidiaries are now drawing up plans for expansion in the three-year period 1972 to 1974, for which the Reserve Bank of India has compiled a perspective plan envisaging the opening of 5,000 new offices by all commercial banks. This means opening 139 new offices a month as against the average of 149 a month from June 1969 to October 1971. The perspective plan emphasises the need for priority to the relatively under-developed or under-banked States like Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Nagaland, Orissa, Uttar Pradesh and West Bengal.

There are no two opinions on the need for expansion of banking facilities at as fast a rate as possible. However, I venture to suggest that our enthusiasm in this respect has to be tempered by awareness of the realities. The pace of expansion of branches in the last two years has imposed an almost unbearable strain on trained man-

power resources, and we are already faced with the reality of the lack of adequately trained personnel for jobs requiring competence of a high order. While on this subject I would like to reiterate that though we are doing all we can to expand our recruitment and training programmes and facilities, in the ultimate analysis there is no substitute for experience on the job. Preliminary training prepares staff to discharge their duties competently, but the deployment of public funds, management of men and an intelligent interpretation of developing policy do require self-confidence and maturity of judgement of an order which can only be developed over a period of actual working under guidance. Branch managers and other field staff carry heavy responsibilities and cannot be turned out in the training colleges alone.

What I wish to emphasise is that our branch expansion has been spectacular enough so far. Plans for further expansion must be well co-ordinated, so that the resultant strains are organisationally bearable, having regard to trained manpower resources in particular. We have initiated a dialogue with the authorities to this end.

Foreign Offices

You will be happy to hear that in pursuance of our efforts to maximise our foreign exchange earnings, we have upgraded our Representative Office in New York to the full status of a branch and also opened a new Representative Office in Beirut. In December I had the pleasure of inaugurating these two new offices which hold promise of new opportunities of widening and diversifying our activities in the sphere of foreign exchange business which continues to constitute a salient feature of our operations.

Reorganisation

One of the important developments which took place in the Bank last year was the reorganisation of two Circles (viz. Ahmedabad and Bombay Circles, excluding Bhopal Region) broadly on the pattern which emerged out of the study we had undertaken of the organisational structure and administrative practices. The new design was principally

based on the concept of market segmentation, whereby our activities have been sought to be oriented towards meeting the different needs of different classes of customers. Such an approach, we felt, would help us in better identifying the characteristic needs of different customer-groups and providing appropriate services to meet these needs by introducing, where necessary, new schemes and facilities.

An integral part of the reorganisation scheme is the budgetary control system through which the business, incomes, costs and profits of each unit of the Bank are planned on an annual basis. The actual performance of each unit is evaluated periodically to ascertain the variation with the budgeted levels, and appropriate remedial measures initiated in time to bring the performance in line with the planned growth-levels. The system as introduced enables the Bank to plan its business growth with due regard to its available resources and the changing environment, and provides for the active participation of the operating officials in determining, along with their controlling authorities, their own unit budgets. The budgetary control system thus serves not only as a useful mechanism for linking the unit objectives with corporate objectives but also gives a sense of direction and purpose to each operating unit.

Although budgeting is not a new concept in the industrial world, its application in commercial banking is quite recent even in foreign banks. This is so because of the difficulties involved in quantifying meaningfully many of the items of banking business; these difficulties are less in the case of manufacturing concerns, where physical units of production are clearly identifiable and measurable. Because of this it was difficult for us to visualise how far the budgeting process could be made really effective. I am happy to state that our experience in two Circles has convincingly demonstrated that very encouraging response can be evoked. We feel assured that our budgetary control system holds good promise.

The experience of the working of the reorganised structure in the two Circles has helped us in refining the new

design as well as systems and procedures to suit operational requirements. Based on this experience we have undertaken studies to further streamline our methods of working and the scheme of delegation of authority. We are confident that the results of these studies will assist us in improving the administrative and operational efficiency of the Bank. We plan to extend the new scheme to all the remaining Circles, including the proposed new Circles centred at Bhopal and Patna, on the new pattern with effect from the 1st July this year.

Staff Relations

In the field of staff relations, attempts were made and continue to be made to further strengthen the institutional mechanism of bipartite negotiations for resolving issues. This institutional mechanism can work only so long as there is a climate of mutual trust and a common appreciation of the issues involved. If this basic climate is provided, it would be possible to generate a problem-solving attitude, and we have experience to show that the solutions thus reached have a more lasting value. We had a programme at our Staff College in which representatives from the management and the trade unions were involved and we believe that this did, in some measure, help in throwing up evidence of common awareness for bringing about the desired climate. Sympathetic understanding among conflicting groups is an arduous process and we know we are nowhere near a perfect accord. What is heartening, however, is the positive response that we have received from our unions; this gives us confidence to intensify our joint efforts at reaching common ground in regard to basic relationships that we would like to establish.

Apart from the improvement in the mechanism of bipartite talks with the Staff Federations, we feel that the management's philosophy vis-a-vis the individual employees and their morale needs attention. We believe that our employees, as individuals capable of sustained effort in attaining the institution's objectives, are our prime resource. We have commenced a serious review of our personnel and admin-

istrative practices — recruitment, placement and promotion policies, communication channels and co-ordinating mechanisms. Our objective is to create conditions that would facilitate the full development and employment of individual talents, enabling the growth of individuals to sustain the long-term growth of this institution in the national interest.

One aspect which needs to be looked at in this context is the change in the nature of the banking tasks themselves. The concept of banking as it is now emerging, as an instrument of economic change to maximise social good, is different from what prevailed in the past. The day-to-day handling of work at the base-line cannot remain static in the face of this changed concept of banking. Apart from structural changes in the organisation, there is need to review the work-structure from the cashier and clerical level up to the level of senior management. We believe that the present generation of dynamic and qualified youngsters in banking is anxious to get out of the groove of repetitive monotonous work involved in the purely accounting side of bank transactions and is looking for opportunities that lend scope for creativity and effort in keeping with individual capabilities. We in the State Bank have had ample proof of this urge in the results shown by our staff in the fields of deposit mobilisation and agricultural business. Arising from this recognition of employees' needs, I feel it is time we gave thought to re-designing the jobs at the base-line to provide more responsible and meaningful tasks to clerical and cashier staff. This change needs to be worked through the active participation of employees of all cadres and the respective Staff Federations and I voice the hope that we shall before long make constructive progress in this regard.

Local Boards

Before I close, I wish to welcome Shri Vijay M. Merchant to the Bombay Local Board and also thank Shri Mathuradas Haridas and Shri Rana Raja Yogendra Chandra, who ceased to be on the Local Boards at Bombay and New Delhi respectively during the course of the year, for their able guidance and direction.

Banking at the Grass-Root Level

D. J. Kanvinde

With the advent of social control and more particularly after the nationalisation of the fourteen major commercial banks in July 1969, the national policy in respect of commercial banking has undergone a radical change. The emphasis has shifted from protecting the interests of the depositor and viability of the banking units to the proper utilisation of bank resources for meeting the needs of planned economic growth and balanced regional development and serving the interests of the neglected sectors of the society. This does not mean that concern for depositors' interests or viability of banks has been relegated to the background; rather these factors have been set in the perspective of the national credit policy attuned to growth with social justice. The spirit inspiring this new policy has found full expression in the report of the Gadgil Study Group on the Organizational Framework for the Implementation of Social Objectives, which has laid bare many

credit gaps in the economy in respect of the needs of the weaker sections of the society and unorganised sectors of the economy. Another aim of the new national credit policy is to bring the main levers of financial control in the hands of the State, so that a uniform and complementary policy will be pursued by all financial institutions in line with the overall national policies. This article seeks to study the banking set-up at the grass-root level, existing as well as the one proposed by the Banking Commission, to see how far it is capable of implementing the new policy.

Co-operative Credit

Till the entry of commercial banks in the field of rural credit, the co-operative sector was the principal agency in the organised sector for providing credit at the village level. Its achievement in this field — particularly during the last two decades — has been quite remarkable. Total credit provided by primary agricultural credit societies increased from Rs. 24 crores in 1951-52 to Rs. 540 crores in 1969-70. As a proportion of total borrowings of cultivators, co-operative credit accounted for just 3 per cent in 1951-52; by 1961-62, the proportion had risen to 15.5 per cent and currently it is estimated at over 25 per cent. The number of villages and the percentage of rural population served by active societies increased to 5.33 lakhs and 34 respectively in 1969-70.

This is, however, a 'macro' view of the progress of co-operative credit at the village level. A closer study of the operations of co-operatives reveals significant gaps. The All-India Rural Credit Review Committee in its comprehensive report has pointed out many inadequacies in the coverage and working of the co-operative credit sector in the country. Some of these are discussed below.

The development of the co-operative movement in India has been markedly uneven. While it has made a very good progress in Gujarat, Maharashtra and Punjab, it is very poorly developed in Assam, Bihar, West Bengal,

Rajasthan, Orissa and Jammu and Kashmir, with other States occupying intermediate position. The proportion of cultivators borrowing from co-operatives to total cultivators has remained more or less stagnant at 20 per cent. In fact, as the Banking Commission Report has pointed out¹, the effective coverage expressed as a proportion of borrowing rural households to total rural households is less than 20 per cent in all but four States and in some of them such as Assam, Orissa, Bihar, Uttar Pradesh and West Bengal, it is less than 10 per cent.

The orientation of the co-operative credit structure to productive needs has, by and large, been inadequate. Credit sanctioned is often misused and schemes like disbursement of credit in kind are not being properly implemented. This is a serious weakness of the co-operative structure. If the increasing volume of co-operative credit is not being used for productive purposes, it would only go to swell the inflationary potential in the economy.

The co-operative movement is considered to be popular democratic movement. But, as pointed out by the All-India Rural Credit Review Committee, 'the principle of open membership is not always effective and several co-operatives operate as a closed shop for the benefit of one particular economic group or caste or faction'². It is the social and economic elite of rural areas that controls it and the poorer and socially depressed sections do not derive much benefit from it. The findings of the All-India Rural Debt and Investment Survey throw very interesting light on the prevailing situation. It has revealed that only one out of every 40 cultivators in the lowest asset group borrowed from co-operatives, while one out of every 5 cultivators in the highest group had recourse to co-operative credit. As a proportion of those who borrowed from any agency, borrowers from co-operatives

1. Page 152, paragraph 8.12.

2. Report of the All-India Rural Credit Review Committee, page 174, paragraph 25.

formed only 5.7 per cent in the case of the smallest asset group and 34.9 per cent in the case of the highest asset group³. This shows that the proportion of small cultivators, who had access to co-operative credit, was relatively low and that bigger cultivators received a much larger share of co-operative credit than would appear to be justified, if allowance is made for the extent to which their own resources could have helped to finance their outlays on the farm. Though there are State-wise variations in this behalf, the general picture is more or less similar in all States. A recent study conducted by the National Council of Applied Economic Research is reported to have observed that various cliques and pressure groups at the village level have greatly obstructed the flow of co-operative credit to deserving farmers and consequently agricultural production has suffered setbacks in certain States. With the advent of the green revolution the economic power of large farmers has further increased and that of the weaker sections correspondingly shrunk. Though there is no direct evidence to indicate that control of larger farmers on the co-operative sector has increased in recent years, there is reason to believe that this is likely to have happened.

The co-operative movement was established on the principle of self-help and mutual help. It is a movement, which seeks to impart strength to small men, who, by pooling their individual meagre resources, can effectively hold their own in the fight against the stronger elements in the society. The co-operative credit structure aims at pooling the savings of small men and putting the idle funds to productive uses. This has not happened in India. In the fields other than credit, the co-operative movement has achieved a fair measure of success in urban areas particularly in urban housing and some progress has been made in marketing and processing in certain areas of Gujarat, Maharashtra and Mysore. Though smaller

3. Report of the All-India Rural Credit Review Committee, page 128, paragraph 4,

farmers have derived some benefit from these societies (e.g. sugar co-operatives in Maharashtra), most of these institutions are dominated by large farmers and have become a cockpit for power struggle. The really weaker sections of the society have derived little benefit from them. To quote from the Report of the All-India Rural Credit Review Committee, "Whether precisely identifiable or not, the impact of vested interests on the working of agricultural credit societies is in evidence in a large number of these institutions. This is partly derived from the larger socio-economic background against which the co-operatives in the rural areas have to function..... This is particularly the case where there are large disparities between members not only in economic terms but also in respect of factors such as influence, authority and social status."⁴

Similarly, co-operative credit societies have not succeeded in mobilising rural savings. Their savings mobilisation effort is very feeble as would be evidenced from the very low deposits, which they have collected. In 1969-70, a primary agricultural co-operative credit society on an average had deposits of only Rs. 3,571, which constituted just 6.7 per cent of its total working capital. The All-India Rural Debt and Investment Survey and other studies have revealed that larger farmers do have savings, but they are reluctant to deposit them with co-operative credit societies. Evidently large farmers are keen to derive the maximum benefit from cheap credit facilities offered by co-operatives, but they would like to utilise their own surplus cash in lending to other farmers at very high rates of interest — mostly to small farmers who are denied co-operative credit on grounds of non-viability. Co-operative credit societies have thus become a channel for cheap Reserve Bank of India finance and not thrift societies.

The societies are not functioning efficiently even as a channel for Reserve Bank finance. Most of them are

4. Op. cit., page 188, paragraph 50.

organisationally weak and ill-managed by part-time and inefficient secretaries, who do not have either competence to assess the credit needs or authority to ensure proper utilisation of loans and their timely repayment. The secretary often functions as a rubber-stamp of the managing committee dominated by vested interests. Consequently, nearly 85 per cent of the societies are inefficiently run and have been awarded 'C', 'D' or 'E' audit classification. Even so, loans channelled through them are increasing. Total outstanding borrowings of primary agricultural credit societies from central financing agencies increased from Rs. 22.7 crores in 1951-52 to Rs. 576.0 crores in 1969-70. Total finance from the Reserve Bank of India to State Co-operative Banks for seasonal agricultural operations and marketing of crops increased during the period from Rs. 12.1 crores to Rs. 423.8 crores.

With such a weak organisational base, it is no wonder that overdues of co-operative societies are increasing. In 1951-52, they amounted to Rs. 9 crores or 25.3 per cent of the loans outstanding, while by 1969-70, they had risen to Rs. 268 crores or 37.7 per cent of outstanding loans of co-operative credit societies. 'Co-operative credit has frequently fallen short of standards of timeliness, adequacy and dependability.....Overdues are heavy and rising from year to year, in many states, including those which are co-operatively developed.'⁵ The facile and undisciplined loaning has, in many instances, weakened the fabric of rural credit in the country and failed to develop a sense of financial discipline amongst borrowers so necessary for the healthy growth of modern agriculture in India. Political factors are often responsible for widespread defaults even in co-operatively advanced States and rival groups persuade people not to repay the dues so as to embarrass the management of the society.⁶ Besides,

5. Report of the All-India Rural Credit Review Committee, p. 202, paragraph 68 (vii) and (viii).

6. Report of the All-India Rural Credit Review Committee, p. 194, paragraphs 59 and 60.

since the return flow of funds from the co-operative sector is not commensurate with the funds made available to it, this is becoming an increasingly important factor in swelling money supply in India.

Since co-operative credit societies have for a long time been practically the only institutional agency in the field of rural credit, the policy towards them was inevitably influenced by this fact and, to a certain extent, by ideological considerations. Committee after committee has been solicitous about its health and suggested a number of measures to strengthen and to improve the structure. With the entry of commercial banks in the field, the situation has somewhat altered, though not very considerably, because the spread of commercial banks in rural areas has so far been far too inadequate. All the same, when the future set-up of rural banking in the country is being discussed in the wake of the publication of the Banking Commission's Report, it is necessary to make an objective assessment of the progress and potential of both.

Commercial Banks

Commercial banks have in recent years started extending their operations deep into rural areas and providing credit in a big way to the hitherto neglected sectors of the economy, which have now been accorded high priority. The growth of their branch network and of their credit to priority sectors since nationalisation has been phenomenal. The number of offices of scheduled commercial banks increased by 4,723 to 12,985 between June 1969 and December 1971. Scheduled commercial banks' outstanding credit to agriculture rose from Rs. 188.4 crores in June 1969 to Rs. 382.8 crores in September 1971. Of the commercial banks' offices existing at the end of December 1971, 4,889 are located at rural centres, i.e., with population below 10,000.

Commercial banks are emerging as an important wing of rural finance and quantitatively their progress in extending rural credit in the very short period, which has elapsed

since nationalisation, has been quite impressive. An assessment of their qualitative achievement is not yet available.

The data that are available in respect of the State Bank Group, indicate that the operations of the Group at the grass-root level are in keeping with the spirit of the new national credit policy. For example, 76 per cent of the farmers assisted were small farmers with holdings of 4 hectares and less and those having holdings of 2 hectares and less formed 51 per cent. The concern for improving the quality of lending so as to ensure proper assessment of credit needs and productive end-use of credit and to make a contribution to the all-round development of rural areas has been the hallmark of the rural credit policy of the State Bank Group. Constant efforts are being made towards this end and new schemes are being evolved for the purpose. The scheme for setting up Agricultural Development Branches, for example, envisages preparation of special schemes of agricultural finance in accordance with the assessed needs of villages in carefully selected Intensive Centres with the help of specially trained technical staff. These schemes will not only develop agriculture in the area, but also will contribute to the development of all sectors of the economy of the area, such as artisans, rural industries and small scale industries.

The perspective that the Intensive Centres Scheme of the State Bank Group has set before itself is not one of just providing credit for agriculture alone but of an all-round development of the economy of the region to the extent it is possible for a commercial bank to bring about. The Group obviously cannot be expected to develop the infrastructure facilities, but would certainly use its good offices to expedite the development of these so that the economic viability of its borrowers will improve and overall development of the area will be speeded up. Another aspect of the scheme is that the Bank is itself engaging technical staff necessary for evolving the schemes and for proper assessment of the credit needs involved in the

various projects. Thirdly, the Bank's scheme will embrace all sections of the farmers, big and small, and particular attention will be paid to the needs of the latter.

Schemes such as the Intensive Centres Scheme of the State Bank of India can contribute to the sound development of banking at the grass-root level. They are imbued with the new spirit of the national credit policy. They bring to bear on the problems of rural development the necessary technical expertise. If such schemes are accepted by all commercial banks, they can provide a viable alternative to the co-operative credit structure, on which the country has had to depend for the past seven decades.

Rural Banks

The Banking Commission has recommended the setting up of rural banks — both in the co-operative and commercial banking sectors. In the co-operative sector, efficiently managed primary co-operative societies are to be developed into rural banks with technical assistance from district or apex co-operative banks. The Commission has stated that about 51,000 out of the 1.63 lakh societies satisfy one of the indices of potential viability, viz., appointment of a full-time paid secretary. Up to March 1971, about 30,000 societies had received Government share capital contribution — another index of potential viability. A number of such societies as satisfy both these indices can, in the opinion of the Commission, be converted into rural banks, provided they can get necessary technical assistance from the central or State co-operative banks. In areas where the co-operative credit structure is generally weak, rural banks can be established either by making good primary agricultural credit societies to work as subsidiaries of commercial banks or by commercial banks setting up their own subsidiaries. A rural bank affiliated to a commercial bank would be called a 'rural subsidiary bank' to distinguish it from the 'rural co-operative bank'.

Though the rural banks recommended by the Commission are basically banks and will perform all the banking

functions, they will also perform certain non-banking functions. The various functions recommended by the Banking Commission for rural banks are to :

- (1) mobilise local savings by means of various types of deposits;
- (2) provide short-term and medium-term credit for agriculture and other purposes to rural producers and provide long-term loans to agriculturists as agent of the land development bank;
- (3) implement programmes of supervised credit tailored to the needs of individual farmers;
- (4) provide various ancillary banking services to local people, such as remittance of funds, acceptance of insurance premia, safe deposit lockers, etc.;
- (5) set up and maintain godowns;
- (6) undertake supply of inputs and agricultural and related equipment to farmers as agents and in appropriate cases equipment leasing;
- (7) provide assistance in the marketing of agricultural and other products through marketing organisations; and
- (8) generally help in the overall development of villages in the area.

According to the scheme of rural banks envisaged by the Commission, a rural bank would serve a compact group of villages covering a population ranging from 5,000 to 20,000. The rural bank will cater to the full credit needs of all medium and small cultivators. As regards cultivators or other rural producers, who may be in need of a different type of technical help and of a much larger volume of loans than a rural bank can provide, they could approach a branch of a commercial bank. The minimum authorised capital of a rural subsidiary bank would be Rs. 1 lakh, of which Rs. 50,000 should be paid up. At least 51 per cent of the share capital should be held by the

sponsoring bank and the remaining should be offered to local people for subscription. The voting power of shareholders other than the sponsoring bank should be on the basis of one-man-one-vote. The rural bank should be in a position to mobilise increasing deposits from the rural area as its business develops.

According to the 1971 census, total rural population in India was 43.8 crores. On the basis of the formula recommended by the Banking Commission, viz., one rural bank for 5,000-20,000 rural population, between 22,000 to 88,000 rural banks will be required in the country — 87,600 on the basis of one bank for a population of 5,000 each and 21,900 banks for a population of 20,000 each. Though there are about 30,000 potentially viable co-operative societies, which have received Government contribution to the share capital, most of these are likely to be in co-operatively advanced States. Where such societies exist in the area of operation of a weak central co-operative bank, the State apex bank may provide technical assistance and where the co-operative structure is weak, commercial banks should set up rural subsidiary banks on their own. The Banking Commission has recommended that commercial banks should take up this work on an experimental basis for a period of five years and set up rural subsidiary banks in their lead districts. The Commission has recommended two types of districts as particularly suitable for launching this experiment: (i) agriculturally advanced districts with a rich deposit potential and scope for further agricultural development e.g. 'package' districts or cash crops districts or H.Y.V.P. districts, and (ii) areas identified as having considerable potential for development of agriculture, agro-industries and related rural activities, but where much development has not taken place on account of lack of banking and credit facilities.

The scheme of rural banks suggested by the Banking Commission is, by and large, realistic though it lays greater emphasis on co-operation, on the grounds that 'the co-

operative credit institutions have played an important role in many areas of the country, have built an organisation at the grass-root level and have acquired insight into the rural problem'. The Commission has expressed the faith that, 'properly managed and operated, co-operative banking and credit structure can be a source of strength to the whole credit structure of the economy. Under certain conditions, the local participation, democratic management and responsiveness to local needs and urges that co-operative organisations characterise make them the ideal type of institutions to be sought after'.⁷

The Commission's views appear to be inspired by a certain degree of idealism. The weaknesses of the co-operative movement are not merely organisational, they are rooted in the socio-economic conditions in the country. To quote from the Report of the All-India Rural Credit Review Committee again, 'The caste system, the inadequate spread of literacy, the type of land tenures prevailing in certain areas and similar factors account for the difficulty of ensuring that co-operative and other self-governing institutions set up in the villages operate strictly and effectively in accordance with democratic principles. It is not easy to suggest measures for remedying these handicaps in only one special context such as co-operative credit, for this problem is as wide as all rural society and all rural economic activity'.⁸

The co-operative rural banks suggested by the Commission will retain some of the weaknesses inherent in a co-operative organisation, though the problem of finding an efficient and trained secretary may be solved. The crux of the matter is that if the credit institutions at the grass-root level are to function true to the spirit of the new credit policy, there has to be an effective control over them to ensure that the interests of the weaker sections are not neglected, credit needs of all are properly evaluated and

7. Report of the Banking Commission, page 173, paragraph 8.74.

8. Page 188, paragraph 50.

end-use of credit for the purpose for which it is sanctioned is effectively ensured. The central co-operative bank or the parent bank will have to exercise more effective control for this purpose.

One of the methods by which this can be achieved is by making the secretary of the rural co-operative bank answerable to the controlling institution in certain important matters. Though he will function normally under the supervision of the managing committee, he should work as the watchdog of the controlling institution in regard to the protection of the interests of smaller farmers in the matter of admission to membership and grant of loans, proper assessment of credit needs and effective utilisation of loans. Where, in his considered view, the decisions of the managing committee run counter to the spirit of the overall policies, he should be given the discretion to stay their implementation and refer the matter to the controlling institution. For effective implementation of the national credit policy at the grass-root level, tighter control should be exercised over the working of co-operative rural banks and wherever necessary, there should be no hesitation in superseding the managing committees, which are found erring. This suggestion may sound rather drastic to the 'orthodox' co-operators, but a democratic institution, which does not protect the interests of the weaker sections, is democratic only in form and not in spirit and would need to be reformed.

By contrast, rural subsidiary banks will be better placed in this behalf because, the parent bank, by virtue of its majority shareholding, will have the necessary powers to appoint the secretary, who can be made to be responsible to it. The autonomy of the bank would be there in the day-to-day matters, but the control aspect would present less problems than in the case of rural co-operative banks. Rural subsidiary banks need not restrict their operations to their members only but can go all out to help the weaker sections of the society. Further, however large the indivi-

dual rural banks may be, they may not afford to engage technical personnel of the type necessary for undertaking planning for 'all round development of the villages' — one of the functions envisaged by the Banking Commission. Such plans will of necessity have to be prepared by some other agency and credit operations of these banks will have to be fitted into the plan. The banks may not also have sufficient expertise for proper evaluation of individual projects. As pointed out by the Commission, sponsoring banks may find the supervision and control of their subsidiaries more difficult and even more costly than control of branches.

In this context, it would be worth examining whether it would not be better for commercial banks to set up district-level subsidiaries, which will open branches at the village level, rather than set up scores of small autonomous banks, with varying degrees of strength and efficiency. Uniformity of policies and standards of evaluation and control would be much easier to maintain with branches than with a large number of small subsidiary banks. The large-sized subsidiary with relatively large resources will be able to engage the services of competent technical experts, who can be used more intensively for the benefit of the area than would be possible for smaller subsidiary banks to do.

The district level subsidiary bank will have certain advantages over smaller rural banks as well as the existing commercial banks. They can evolve a staffing pattern and salary structure for their rural branches more in line with the living conditions in villages. Commercial banks, which were seeking to evolve a two-tier wage-structure for their branches in the rural and urban areas, have not so far been successful in doing so, because of the resistance of the staff unions. Consequently, rural branches of commercial banks have become grossly uneconomical so much so that their expansion in rural areas has become costly from the country's point of view. The district-level banks may have distinct advantages in this behalf. The district-

level subsidiary may or may not cover the entire district. It may cover a part of the district and more than one such subsidiary bank, sponsored by one or more commercial banks, can be allowed to operate in one district.

To sum up, the scheme of rural co-operative banks recommended by the Banking Commission needs to be examined further, with a view to removing from it the defects inherent in the co-operative credit institutions so that they could serve as an effective instrument of the national credit policy. The scheme of rural subsidiary banks also needs to be re-examined as it envisages the establishment of small institutions, which though viable, may be relatively difficult to control because of their unwieldy number. It is, however, worth considering whether it would not be better for commercial banks to have larger subsidiaries at the district level, covering one or more homogeneous sub-divisions of a district, rather than having a large number of small subsidiary banks. The balance of advantage may perhaps lie with the former.

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Current Topics

Union Budget for 1972-73

The Union Budget for 1972-73 was presented to the Parliament on March 16, 1972. While taking a review of the economy at the time, the Union Finance Minister, Shri Y. B. Chavan, said that the year 1971-72 was one of the most difficult years for the country in that every aspect of the economic activity had to be subordinated to the central task: succour of the refugees from Bangla Desh and war with Pakistan, which claimed an over-whelmingly large share of nation's resources. Despite these, the urgent task of development was not delayed or postponed.

Instead, additional burden was met by two supplementary instalments of fresh taxation, by greater mobilisation of voluntary savings, by a renewed drive for economies in non-Plan expenditure and speedier tax collection. In spite of the extraordinary stresses and strains, which were compounded by natural calamities over many parts of the country, it was possible to end 1971-72 with the country's foreign exchange reserves more than intact, Government stocks of foodgrains of nearly 8 million tonnes, the general price level reasonably stable and a deficit in the Central Budget significantly lower than apprehended.

The Finance Minister said that economic conditions in the recent past contained many pointers to areas, where further sustained effort was necessary. The rate of growth of the economy had slackened in 1971-72. Agricultural production continued to be satisfactory, though production of pulses and some commercial crops notably sugarcane and oilseeds has been uneven. Industrial growth rate continued to be very low. Many basic industries, notably steel and fertilisers, are running well below capacity. Shortage of agricultural raw materials has affected important consumer goods industries like textiles, sugar and vegetable oils. A reasonable degree of price stability is not possible without a rapid increase in production of the basic necessities of the people. Apart from tackling the immediate problems of better management, greater utilisation of capacity, improved raw material supply and industrial relations and a general environment of more active demand, we have to expedite the creation of additional capacity in a number of vital areas including the generation of electricity, fertilisers and steel. While imports, other than those of foodgrains, have increased rapidly, exports failed to pick up to the desired extent. Despite some signs of improvement, the level of savings and investment in both the public and private sectors is inadequate to sustain a satisfactory rate of growth. This situation has to be rapidly transformed, if the objective of growth with social justice and self-reliance is to be realised soon.

Budget Estimates

The Budget for 1972-73 shows a revenue surplus of Rs. 219 crores with revenue receipts and expenditure estimated at Rs. 4,343 crores and Rs. 4,124 crores respectively. However, the surplus on revenue account is more than off-set by a large deficit on capital account. With estimated capital receipts and expenditure of Rs. 2,095 crores and Rs. 2,689 crores respectively, capital account shows a deficit of Rs. 594 crores. There is thus an overall deficit of Rs. 375 crores as against Rs. 385 crores (revised estimate) in 1971-72. This deficit is proposed to be reduced to Rs. 242 crores by fresh taxation of the order of Rs. 183 crores, of which the States' share will be Rs. 50 crores. However, the subsequent decision of the Finance Minister to reduce the levy on kerosene oil by 2 paise a litre is likely to increase the deficit by Rs. 12 crores to Rs. 254 crores.

TAX PROPOSALS

Direct Taxation

In the field of direct taxation, no change is proposed in the rates of income-tax as also of surcharge on income-tax in the case of tax payers other than companies. Winnings from State or other lotteries will be taxed on a concessional basis. There will be deduction of tax at source at the rate of 34.5 per cent from crossword puzzles and lotteries. Payments made to contractors by the Government, local authorities, statutory corporations and companies will be subject to deduction of tax at source at the rate of 2 per cent. Payments made by contractors to sub-contractors will attract a deduction at the rate of 1 per cent. Capital gains arising from the transfer of jewellery held for personal use have now been made chargeable to capital gains tax. Dividends received from co-operative societies, hitherto completely exempt from income-tax, are to be included in categories of income, which qualify for exemption from income-tax up to Rs. 3,000 in a year.

As far as the corporate sector is concerned, the deduction of 5 per cent of profits in the case of domestic companies engaged in priority industries has been done away with. The surcharge on company taxation will continue to be 2.5 per cent for the assessment year 1972-73. But on income-tax payable in advance during the financial year 1972-73, the surcharge will be at the rate of 5 per cent.

To prevent evasion of taxes and to rationalise the incentives available for promoting savings and investment, a number of changes have been provided in the Budget. In regard to taxation of charitable and religious trusts, voluntary contributions received by such institutions will henceforth qualify for exemption from income-tax only if these are applied to charitable or religious purposes or are accumulated for such purposes in the specified manner. Investment in industrial proprietary concerns or partnership firms will be included among assets which qualify for exemption from wealth tax up to Rs. 1.5 lakhs. Contributions made towards unit-linked insurance plans of the Unit Trust of India will qualify for deduction in computing taxable income of an individual in the same manner as life insurance premia and contributions to provident funds. The income of approved gratuity funds will be exempted from income-tax from the assessment year 1973-74. Total yield from all the changes in direct taxation is expected to be Rs. 16 crores in 1972-73.

Indirect Taxation

Excise Duties : Changes in the field of indirect taxation have been brought about to rationalise the tax structure and discourage non-essential imports. There is no addition to the list of commodities, which are subject to excise duties, though excise duties on a number of items have been raised. These include paints and varnishes, expensive varieties of synthetic fibres and yarn, synthetic organic dyestuffs, optical bleaching agents, aerated waters with blended concentrates, kerosene, asphalt,

bitumen and petroleum waxes. There are a few items where opportunity of merging the special duty with basic duty is taken to raise additional revenue. The basic and special duties on unmanufactured tobacco have been merged and rounded off upwards. In the case of paints and varnishes, additional revenue will be Rs. 2 crores and in the case of paper it will be Rs. 5 crores. Similar increases have been made in the case of rayon and synthetic fibres and yarn. To economise the use of steel, basic duty on steel products is raised by 30 per cent and the regulatory duty of 50 per cent will apply to these higher basic rates. The regulatory duty of 25 per cent on aluminium and its products has been similarly raised to 33-1/3 per cent of the basic duty. The duty on kerosene was increased by Rs. 57.75 per kilo litre or roughly by 6 paise per litre, but subsequently the duty was reduced by 2 paise per litre. In the agricultural sector, efforts are made to raise additional revenue by raising the duty on fertilisers from 10 per cent to 15 per cent. A duty of 10 per cent has been levied on power-driven pumps, which are designed primarily for handling water.

In keeping with the principle laid down by the Fifth Finance Commission that from 1972-73 special excise duties, which had been levied in the past exclusively for the benefit of the Centre, should also be included in the divisible pool, special excise duties and basic excise duties have been merged in a number of cases and rounded off so as to introduce a certain measure of simplicity in the rate structure. As a result, all the ad valorem rates of excise duties, with a few exceptions, will fall under six different slabs ranging from 10 per cent at the lowest level to 50 per cent at the highest level with the intervals of five per cent. In accordance with this principle, the basic duty of 20 per cent and the special duty of 4 per cent on cement has been replaced by a combined duty of 25 per cent. Similarly, items which carry a basic duty of 15 per cent and special duty of 3 per cent will now have a rate of 20 per cent. For latex foam sponge, polyurethane foam and articles thereof and tyres for motor vehi-

cles, a new combined rate of 50 per cent has been levied instead of the basic duty of 40 per cent and a special duty of 8 per cent. In the case of coffee, the aggregate rate, which works out to Rs. 102 per quintal, will be rounded off downwards to Rs. 100 per quintal. Likewise, in the case of vegetable non-essential oils, the rate is being reduced from Rs. 110.25 per metric tonne to Rs. 100 per metric tonne.

Customs Duties : In view of the imperative need to exercise a general restraint on imports and to keep undisturbed the simplification of the import tariff introduced last year, the Budget has made certain changes in customs duties. Accordingly, a rate of 10 per cent ad valorem will apply to all items which bear a duty of 100 per cent or more as well as to those few selected items which were included in the 10 per cent list in last December. A new rate of 5 per cent ad valorem will apply to all items which attract a duty of 60 per cent or more but less than 100 per cent. All remaining items will continue to bear the regulatory duty of 2.5 per cent. Total yield from the changes in indirect taxation during 1972-73 is estimated at Rs. 167 crores, of which contribution of excise duties is expected to be Rs. 145 crores.

Increase in the Plan Outlay for 1972-73

An important feature of the Budget for 1972-73 is a substantial step-up in the Plan outlay. To accelerate the pace of growth and social welfare, the budgetary provision for the Central and Centrally-sponsored Plan schemes has been raised from Rs. 1,455 crores in 1971-72 to Rs. 1,787 crores in 1972-73, representing an increase of about 25 per cent. The increase in the Plan outlay is spread over virtually all the sectors of the economy. By far the largest increase is being made in provisions for those schemes which combine an element of social welfare with future growth potential. The budgetary provisions for small farmers development agency and for marginal farmers and agricultural labourers have been

doubled to Rs. 12 crores and Rs. 6 crores respectively. In view of the sizeable increase in foodgrains production and complete stoppage of their imports, the provision for food subsidy has been raised to Rs. 100 crores against the revised estimate of Rs. 50 crores for 1971-72. The annual Plan outlay of the States and Union Territories is expected to be Rs. 1,666 crores in 1972-73 as compared to Rs. 1,440 crores in 1971-72.

Conclusion

On the whole, the Budget does not contain any proposals which would act as disincentive to production and investment. The increase in surcharge on company taxation should not affect private investment adversely in the wake of huge step-up in the public sector Plan outlay as proposed in the Budget. As the Finance Minister has put it, "increase in Plan outlay in the public sector is a pre-requisite for revival of industrial production whether in the public or in the private sector". It is, therefore, expected that the proposed increase in the Plan outlay in 1972-73 will serve as a catalyst for the revival of growth, particularly in the industrial sector, where recent trends leave much to be desired. The budgetary deficit, even though of a moderate size, would have its natural impact on prices. However, if the growth of industrial production picks up and the performance of agricultural sector continues to be satisfactory as at present, it should not be difficult for the country to attain a satisfactory overall growth in 1972-73, with relative price stability.

Legal Decisions

On Banking

Attachment of Joint Debt — When Illegal?

Nandikatta Anjanna and Others

vs.

Bandi Ramkrishna and Others

AIR 1971 Andhra Pradesh 165

Contributed by N. K. Randeria

Two questions, which arose for determination in this appeal, were (a) whether the attachment of the debt due to the judgement debtor was illegal because application for attachment was made before it became due, and (b)

whether the attachment of a debt jointly due to a judgement debtor with another was illegal.

It was not disputed that the application for attachment was made before the debt fell due for payment, though the attachment was actually levied after the debt became due. It was contended that the application having been made prior to the date on which the debt became due, the attachment order should be deemed to be one in respect of contingent debt and was, therefore, bad.

Rejecting the contention, the High Court observed that it was the date of attachment and not the date on which the application for attachment was made that was material. If the debt was due by the date on which the attachment was effected, there could not be any valid objection against the same simply because the application for its attachment was made before it became due.

Dealing with the contention that the attachment of a debt jointly due to a judgement debtor with another was illegal, the High Court referred to the decision in *Macdonald v. Tacquash Gold Mines Co.*, (1884) 13 QBD 535, in which a view was taken that a debt, legal or equitable, owing by a garnishee to a judgement debtor, which could be attached to answer the judgement debt, should be a debt due to such judgement debtor alone, and where it was only due to him jointly with another person, it could not be so attached. Observing that this view was approved by the Indian Courts, the High Court referred to the decision in *Batcha v. Sulaiman Sahib*, AIR 1956 Madras 163, in which it was held that under Order 21 Rule 46 of the Civil Procedure Code, the attachment could be made of a debt due to the judgement debtor alone and not a debt due to a judgement debtor and another. The High Court, therefore, held that the attachment effected by the Court below was not valid and accordingly, reversed the order of attachment.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 31-3-1972	A Month Ago 25-2-1972	A Year Ago 26-3-1971
State Bank of India			
Total Deposits :	1,656.9	1,531.2	1,312.4
Demand (Exclusive of inter-bank transactions)	812.6	688.7	655.5
Time (-do-)	844.3	842.5	656.9
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,094.8	1,158.8	1,078.4
Total Investments	421.9	415.1	346.1
Subsidiary Banks			
Total Deposits :	414.3	405.9	351.7
Demand (Exclusive of inter-bank transactions)	172.0	164.8	146.7
Time (-do-)	242.3	241.1	205.0
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	329.8	326.1	295.2
Total Investments	90.9	90.7	71.9
All Scheduled Commercial Banks			
Total Deposits :	7,053.7	6,935.3	5,906.2
Demand (Exclusive of inter-bank transactions)	3,062.9	2,964.9	2,626.1
Time (-do-)	3,990.8	3,970.4	3,280.1
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,222.3	5,141.9	4,683.8
Total Investments	1,651.7	1,646.6	1,362.3

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

		Position as at the end of		
		Decem- ber 1971	Septem- ber 1971	Decem- ber 1970
State Bank of India				
No. of Offices	...	2,477	2,350	2,112
Finance to Small Scale*				
Industries :				
No. of Units Assisted		38,489	36,858	34,084
Limits Sanctioned	...	262.12	253.71	246.51
Outstandings	...	176.88	168.91	151.76
Direct Finance for Agriculture :				
No. of Accounts	...	1,93,852	1,97,251	2,16,155
Limits Sanctioned	...	68.91	68.77	74.07
Outstandings	...	47.70	46.45	51.81
Indirect Finance for Agriculture :				
No. of Accounts	...	920	925	1,047
Limits Sanctioned	...	96.78	93.10	177.11
Outstandings	...	41.07	49.73	70.56
Export Finance :				
Outstandings	...	108.05	114.60	92.93
Subsidiary Banks				
No. of Offices	...	1,304	1,259	1,149
Finance to Small Scale*				
Industries :				
No. of Units Assisted		19,650	19,364	17,212
Limits Sanctioned	...	90.35	89.34	84.91
Outstandings	...	50.19	47.53	44.54
Direct Finance for Agriculture :				
No. of Accounts	...	65,414	67,257	65,645
Limits Sanctioned	...	31.97	30.96	33.46
Outstandings	...	21.15	21.90	23.53
Indirect Finance for Agriculture :				
No. of Accounts	...	801	713	656
Limits Sanctioned	...	16.62	17.62	26.51
Outstandings	...	6.97	7.29	11.92
Export Finance :				
Outstandings	...	14.03	12.92	11.86

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

		Position as on (31-3-1972)	A Month Ago (25-2-1972)	A Year Ago (26-3-1971)
(Amounts in rupees crores)				
1. Money Supply with the Public ...	...	8,054	7,890	7,136
(a) Currency with the public ...	...	4,803	4,776	4,380
(b) Deposit money with the public		3,251	3,114	2,756
		February 1972	January 1972	February 1971
2. Foreign Exchange Reserves ...	...	870.4	876.4	732.3
(Per cent per annum)				
3. Money Rates				
(a) Bank Rate ...		6	6	6
(b) State Bank of India Advance Rate ...	...	8½	8½	8½
(c) State Bank of India Hundi Rate ...	...	8¾-10½	8¾-10½	9½
(d) Call Money Rate (Bombay) ...		7.5	7.5	11.7
(e) Bazar Bill Rate (Bombay) ...		15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

		June 1971	May 1971	June 1970
4. Index Number of Industrial Production (1960=100)				
General Index ...		188.4	181.8	182.4
(Adjusted)				
	Week ended (25-3-1972)	Week ended (26-2-1972)	Week ended (27-3-1971)	
5. Index Numbers of Wholesale Prices (1961-62=100)				
All Commodities ...	192.1	190.9	180.7	
Food Articles ...	216.3	212.9	199.8	
Liquor and Tobacco	206.9	202.4	184.9	
Fuel, Power, Light and Lubricants	177.9	175.2	162.7	
Industrial Raw Materials ...	178.7	184.4	191.3	
Chemicals ...	198.8	198.5	189.5	
Machinery and Transport Equipment ...	162.5	162.4	151.5	
Manufactures ...	173.2	172.3	160.4	
	January 1972	December 1971	January 1971	
6. Consumer Price Index Numbers for Industrial Workers (1960=100)				
...	194	195	184	
7. Foreign Trade				
	(Rupees in crores)			
Total Imports ...	177.8	188.5	153.5	
Total Exports (including re-exports)...	143.4	143.6	143.7	

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।

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Financing the Growth of Engineering Industry*

R. K. Talwar

I propose to talk to you on "Financing the growth of engineering industry in the seventies." In India, as elsewhere, the engineering industry provides the key to rapid industrialisation. In this context, it is very pertinent to see how the engineering industry has grown since 1950. When we compare the rate of growth of the engineering industry with that of industry as a whole, it is heartening to find that the growth rate of the engineering industry has been far greater. During the fifties, which broadly corresponded to the first decade of planned development, the average compound annual rate of overall industrial growth

* Text of the speech delivered at the Annual Meeting of the Indian Engineering Association, (Southern Region) at Madras on the 17th March 1972.

was of the order of 7.4 per cent, against the engineering industry's 14.2 per cent. In the following decade, whereas the annual overall industrial growth rate was 6.1 per cent, the engineering industry registered a rise of 8.5 per cent per annum. For the entire 20 year period 1950 to 1970, the growth of engineering industry works out to over 11 per cent per annum, as against 7 per cent per annum for all the industries taken together. The performance of the industry has thus been highly impressive despite the fact that it passed through one of the worst phases of recession in 1966 and 1967. In terms of diversification, gross output and exports, engineering industry has made good progress in recent years. Total exports of engineering goods have increased from Rs. 11 crores in 1960-61 to Rs. 115 crores in 1970-71. An export target of Rs. 250 crores has been fixed for the industry for 1973-74 and the perspective is to reach the figure of Rs. 1,000 crores by 1980-81. Any improvement that takes place in the engineering industry is bound to have a very favourable impact on the general economic climate of the country and vice versa. Thus, there exists tremendous potential in the engineering industry for further growth, further diversification and for stepping up exports.

What are then the impediments holding up the progress of the industry? A major difficulty experienced by the industry is the shortage of steel and non-ferrous metals. In 1970-71, the import bills on account of iron and steel and non-ferrous metals were as high as Rs. 147 crores and Rs. 119 crores respectively. Disturbed industrial relations, which at one time were causing a lot of strain in the eastern region, have now become visible in a few other regions also. Production of steel has been adversely affected by industrial unrest. As against the installed capacity of 8.9 million tonnes of steel ingots per annum, the production in 1970-71 was only 6.1 million tonnes. If this could be stepped up to, say, 90 per cent of the installed capacity, the country would not need any steel imports at all. Of course, certain special qualities of steel may have to be imported, but they could well be taken care of by the

exportable surplus that would be available from our own indigenous production. We all know the efforts that are being made to increase steel production both in the public and private sector steel plants. We wish these efforts great success, as they are vital to the growth of the engineering industry. Another step that could be taken — I know action has been initiated in this direction, but it could perhaps gain momentum — is the setting up of more and more electric furnaces for converting scrap into steel. At present, a lot of scrap is being exported from this country. We could cut down these exports drastically and use the material ourselves for meeting our growing needs of raw material. As far as non-ferrous metals are concerned, we should set up smelters at important port centres for copper, lead and zinc. Rather than import these metals, it would be much cheaper to import the ores and convert them into metals, as this would help us to save foreign exchange very substantially. These measures would not only improve the supply position of the non-ferrous metals, but also save a lot of foreign exchange needed for other urgent purposes and help us to progressively achieve the objective of self-reliance.

Turning to financing the growth of the engineering industry, I am reminded of a joke that was mentioned to me by one of my colleagues a few days ago. It is about an ailing industrialist, who, I hope, is not from the engineering industry. The doctors advised him that he would have to go in for a heart transplant and they thought it would be best to consult the patient himself as to whose heart he would like to have. Three hearts were offered to him, one of a young athlete, another of a young beautiful girl and the third of a 69-year old banker. The gentleman promptly selected the banker's heart. On being asked 'why?' he said, "Well, of the three, this would have been the least used." This comment, I am afraid, is rather harsh on Indian banking. The truth is that both developmental banking institutions and commercial banks in India have immensely contributed to the block and working capital requirements of the engineering industry.

As I said earlier, the engineering industry occupies a high priority in the programme of industrial development of the country. Therefore, it will always receive a high priority for finance from developmental banking institutions. The role played in this respect by the Industrial Development Bank of India, the Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India and the State Financial Corporations fully substantiates my statement. As for the short-term needs of the engineering industry, while it would be quite reasonable and fair to expect commercial banks to continue to meet the growing needs of the industry, it is only appropriate that we all consciously look at the fast-changing situation in the banking system. The demands on the banking system from new directions have been growing. You must have noticed in the budget speech made by the Finance Minister that this year the Government would be relying more on the commercial banking system for financing food procurement operations. At the end of February 1972, advances to the Food Corporation of India by the banking system rose to as high a figure as Rs. 350 crores and it is estimated that they would go up by another Rs. 95 crores in 1972-73. Further, apart from the financial needs of the Food Corporation, a number of State Governments have their own procurement arrangements involving another Rs. 100 crores or more of bank credit. In addition, we cannot ignore the growing credit requirements of the priority sectors, or what can be called the hitherto neglected sectors, while we look at the available kitty from which funds could be drawn for meeting the needs of industries.

Taking all these factors into account, while I repeat that the engineering industry enjoys high priority in the country's development and will receive full attention and allocation of finance from commercial banks, I nevertheless feel impelled to advise that the people and institutions concerned with the financial planning process, as related to industrial expansion and setting up new industries, should take note of this changing situation. The reliance on the banking system should gradually be curtailed and this

cannot happen unless there is a deliberate effort on the part of industrial planners and financiers.

May I, therefore, suggest a way by which you could meet this situation in your future plans? My suggestion is addressed more to large units than to small ones. The industrial licensing policy provides for substantial concessions for export-oriented units. Perhaps, it would not be inappropriate to suggest that large industrial houses should offer to put up new plants, which are in the nature of only assembly plants, and seek concessions similar to those for export-oriented units. What I am visualising is that the licensing policy may permit the establishment of an assembly plant where more than 75 to 80 per cent of components, castings, etc., will come from ancillary units set up with the active assistance and collaboration of such a new large unit. In this process the capital cost of the new large units will be smaller and their capital output ratio lower. Larger industries would generally work for more standardisation and commercial banks would help in bringing up several hundreds of small but technically well qualified entrepreneurs in business, who will be supported by large units. In this manner, large units will indirectly ensure that, while their requirements of various components will be met, the total requirement of bank credit will be apportioned among a number of small units, which will be qualified for it by virtue of their belonging to a priority sector. This will, besides, earn for the large units, the credit of having brought into existence a number of small units with its technical support, and, to that extent, will have helped solve the unemployment problem.

Nowadays we talk of self-reliance. But self-reliance is not something that can be achieved only by talking. Mere import substitution will not achieve self-reliance because, whatever the degree of import substitution we might reach, as we expand our industrial base, there will be need for larger and larger imports. Therefore, self-reliance will come not only through import substitution but also by generating more and larger surpluses for export. Lar-

ger export surpluses are required not only for paying our import bills but also for meeting increasing debt repayment commitments. Self-reliance cannot be achieved unless we conserve our resources, step up savings and increase the rate of investment. I know that the taxes are high; even the rates of corporate taxation have gone up slightly after the last budget. However that might be, more and more funds should be ploughed back, if the engineering industry is to contribute to further investment and to further growth.

There is no dearth of manpower resources in the industry. Over the years, the industry has built up considerable managerial talent and professional expertise. The resources that are required for future growth are known. There is plenty of resilience and there is plenty of determination to go forward. I know that the engineering industry has made tremendous contribution to India's industrial development in the past, and I have no doubt that it will have to do a lot more in the future.

Management Science in Banking

Y. B. Damle

With the increasing complexity of business, greater attention is being focused on improved decision making in commercial banking. A good part of a working day of every bank manager is spent in making decisions and the success of a bank depends largely on the quality of these decisions. These decisions have to be made well in time and in the face of uncertain future conditions; they may have also to be made without complete understanding of their impact on bank profitability — particularly when the effect of the decision is spread all over the bank. Further, the data required for the purpose may not be adequate. It is because of this dilemma of having to take decisions in time and on the basis of inadequate data that the bank executives run for some sort of cover. The term 'run for cover' means seeking out tools, methods and problem solving techniques which would increase a bank's odds of being right in an important decision.

This sort of executive desire to seek tools, methods or problem solving techniques has given rise to a new technology which is known as Management Science. Because of its focus on decision process, a good alternative name for Management Science could be Decision Science. In fact, Management Science could be looked upon as a sort of systematic application of mathematics to the decision process itself. Actually there can be a number of ways to describe Management Science; we could think of it as an approach to the problem solving process which is so implicit in the function of management. Management Science is a method of providing executives with analytical and objective basis for decisions. We could look at Management Science as a tool to be used by management to make decisions. To summarise,¹ Management Science is a systematic application of mathematics (and other analytical tools) to the decision process itself. It uses scientific method to :

- (i) help specify problem, scope and structure;
- (ii) analyse the need for and the flow of information to the decision maker;
- (iii) assist the manager in the formulation of alternatives;
- (iv) assist in evaluation of alternatives and the selection of the most promising one and
- (v) analyse the effects of the decision on the business after it has been implemented

In this approach to the decision problem, the management scientist helps the decision maker to separate the problem into its quantitative and judgemental elements. The quantitative aspect of the problem will then be explored and converted into a set of mathematical equations or a mathematical model. The model may not represent every conceivable facet of the problem; however, if it has been well specified it will represent all the key features. The model could be used to forecast the ultimate results of

1. Bankers' Guide to Management Science. The American Bankers Associations' Report.

a particular decision in quantitative terms. Possible alternatives could be tested on this model at relatively low cost instead of experimenting the decisions in practice and waiting for results to show. By use of a computer, it is possible to arrive at the final result, however complex the model may be, within a very short time. Then by changing the values of the parameters of the model — by parameters we mean values expressed in quantitative terms of various aspects of the problem — we are in a position to get the net impact and test the alternative solutions. In case where the quantification of the elements of a problem is rather probabilistic, statistical methods can be used to assign values thereto with certain specific probability.

Such mathematical treatment of problems was not very uncommon in engineering industry. It is only in business and in commercial organisations that the extension of this concept has been relatively new. In the United States, this technology has got accepted in the banking sphere and since the year 1962 all major banks have been utilising Management Science techniques. Before we go into these aspects, let us trace the origin of this new technology and its development.

The mathematical treatment of problems, known as Operations Research, is a peculiar military name and it can be traced to its military origin. During World War II, British scientists used mathematical expertise to develop methods for working out (1) bombing patterns, (2) staggering of convoys and (3) deployment of weapons. The various methods used by them had one thing in common, that, instead of achieving the ideal solution, the methods went on searching for optimum results under a given set of constraints, or in face of uncertain conditions. Since this methodology of achieving the optimum results under a given set of conditions or constraints was applicable to industry, it soon got adopted for use in industry and thereafter in commerce. It was imported into the United States after World War II and together with statistical and analytical techniques, which could be used for decision making,

came to be known as Management Science. With the boom in industry and business after World War II, big industries and commercial houses including banks patronised research in this area which they soon found useful and profitable, particularly because of the growing complexity of business environment.

The main branches of Operations Research theoretically developed can be classified into the following :

- (i) Linear programming,
- (ii) Transportation techniques,
- (iii) PERT and CPM,
- (iv) Simulation techniques,
- (v) Queuing models,
- (vi) Game theory and
- (vii) Inventory theory.

These basic methods can be made applicable in various business situations so that for a given problem 'optimum' solution can be arrived at.

The development of Management Science techniques in banks in the United States is a phenomenon of the sixties. During the decade, banking in the United States witnessed a phenomenal growth of automation. Then, with most of the data required for decision making being available on tape or disk files and with the possibility of retrieving this data quickly for basing decisions thereupon, the possibility of utilising the latest Management Science technology for the complex business situations became an attractive proposal. Researchers went on adapting the techniques to the banking environment and to work out methods by means of which optimum results could be achieved under complex business constraints. The

computer technology also went on developing and with the advent of the third generation computer and the 'on-line' processing capacity, managers could, by sitting at their desk, utilise the various techniques and work out the impacts of various alternatives before making decisions. To mention a specific example, the profitability resulting from sale or purchase of a security could be analysed within fraction of a second at the desk of an investing official. He would, therefore, be able to make most of the opportunities in the market for improving the yield. Similar situation can arise in other areas of banking operations and accordingly the scope for the use of the techniques was gradually widened. The Bankers Trust Company in New York, in the year 1963-64, developed a computer model of 'banking' itself and was able to manipulate its resources with the use thereof till the Euro-Dollar market upset the entire banking concept on which, this model was based. As per the figures available for the year 1969, there were something like 1,090² Management Science projects undertaken by various banks of which 468 were already completed. These projects mainly fall in the following areas :

- (i) Bond department,
- (ii) Commercial loans,
- (iii) Instalment loans,
- (iv) Real estate-mortgaging loans,
- (v) Money markets — short term,
- (vi) Trust department,
- (vii) Banking operations — asset management and

2. Article by Stephen Williams—Survey shows increasing importance of mathematical aids to management—Journal of Bank Research, Summer Issue 1970.

- (viii) General management aids, which amongst others include branch location studies and lock box analysis.

Some of the Management Science type problems in banking and finance and the techniques available for solution of these problems as developed in the United States are as under :

- (a) Portfolio Analysis

- (i) The selection of stocks and bonds to maximise returns and minimise risk
 - (ii) Efficient allocation of an institution's resources

- (b) Operational Procedures

- (i) The messenger problem — scheduling, routing and selection of carriers in order to achieve communications objective at minimum cost
 - (ii) Operation of cashiers cages — finding out how many facilities are necessary to offer a certain level of service

- (c) Forecasting

- (i) Forecasting the level of demand deposits
 - (ii) Forecasting the return on investments

- (d) Capital Investments

- (i) Evaluating the relative payoff of several alternative investments

- (e) Credit Risk Evaluation

- (i) Finding those factors by which an individual's credit rating can be determined

- (ii) Determining the risk of investments
- (f) Determining the Banking Potential of Branch Offices
 - (i) Selection of sites for new branches
 - (ii) Evaluation of performance of existing branches
 - (iii) Finding what factors are giving an edge to competitors
- (g) Inventory
 - (i) How much cash to keep on hand to satisfy demand requirements
- (h) Information Retrieval
- (i) Advertising
 - (i) An evaluation of the value of advertising
 - (ii) An evaluation of the relative value of alternative advertising methods
- (j) Job Scheduling
 - (i) Finding the most efficient way to schedule a job
 - (ii) Ensuring that jobs are completed on time by indicating the crucial jobs
- (k) Seasonal adjustments — trend cycle

Having traced the development of Management Science in the United States and its present status, it would be interesting to the readers to know as to what is the position in this regard in the State Bank of India. An IBM 1401 Computer System was set up in the Bank during the year 1967 primarily to attend to work relating to the reconciliation of inter-bank transactions and consolidation of total receipts and payments of offices on behalf of

the Government of India and the Reserve Bank of India. During the first few years, scarcely any attempt was made to explore the potentialities and capabilities of computer as an aid to the management in its decision-making function. However, in June 1970, a new department was constituted with the objective of making effective use of this powerful technique which the Management Science offers. The new department is responsible for designing and developing a Management Information System that will support the Bank's planning process and for developing the use of Management Science techniques as an aid to management decision-making. A few of the specific problem areas which the new department is expected to tackle are :

- (i) profitability planning including profitability analysis at micro as well as macro level,
- (ii) loans and deposits forecasting,
- (iii) credit rating — particularly for rural credit and small business,
- (iv) bank cost accounting,
- (v) manpower planning,
- (vi) asset management and
- (vii) market analysis including branch location studies.

The various areas in which Management Science techniques have been used or are likely to be used in the State Bank during the next few years are detailed hereunder :

A. Development of functional information systems in certain areas of banking.

These would, apart from feeding management with data required for decision making, also provide

comprehensive data base from which the various management science studies can be taken up. These are :

- (i) data file on branches,
- (ii) information file for reciprocal arrangements with correspondent banks,
- (iii) investments — detailed information on weekly basis of all sale-purchase transactions and current status,
- (iv) deposits file — information on category-wise deposits at branches,
- (v) small scale industries data file,
- (vi) personnel skills record of officials and
- (vii) data file on advances based on weekly statements of analysis of advances.

B. Application of OR, statistical and analytical techniques to some of the banking problems.

A few of these projects are already on hand in collaboration with user departments, while others are expected to be taken up in the foreseeable future.

OR PROJECTS

(i) Numerical Credit Rating

This is a method to quantify credit risks by analysing the relevant factors and is considered an essential aid for the operational staff who have to handle high volume low-yield credit business. An attempt is being made to develop a numerical credit rating method for agricultural and small business loans.

(ii) Follow-up of Sticky Accounts

While following up sticky accounts, a stage comes when it is necessary to decide

whether any further follow-up action is worthwhile or whether it would be more economical to write off the account as a 'bad debt'. Although a lot of individual judgement is involved in such a decision, the quantitative component of the decision can be analysed on the basis of the amount involved, cost of further follow-up, the chances of recovery, etc. A comprehensive model to take care of all these aspects could be developed, which would analyse the quantitative elements of the decision for the concerned manager. The file developed on small scale industrial advances would provide necessary data base for this study.

(iii) Portfolio Management

The study is directed to investigating and finding out explanation of the current market behaviour of various Government securities with regard to the period of maturity. Such an analysis would enable determination of the price at which purchases and sales of various securities may be considered favourable. The study also analyses the present value of various securities by discounting all the future cash flows; this would help selection of more profitable scrips for investment.

(iv) Evaluation of Reciprocal Arrangements

Based on the information file on reciprocal business, a model to evaluate the reciprocal arrangements on a continuing basis could be evolved. The model will evaluate the relative worth of business connections with correspondent banks within a certain country and also on global basis.

(v) Cash Management

Although most of the Bank's branches do have currency chest facilities, quite a few of them and most of the sub-offices maintain a high level of cash in their hands. By applying the inventory control techniques, it should be possible to lay down thumb-rules to enable the branches to keep their cash balances at a minimum.

(vi) Scheduling of Branch Inspector

On the basis of 'travelling salesman routing programme' developed in marketing industries, it is possible to optimise the effectiveness of the inspection of branches and simultaneously minimise the total distance covered by the Inspectors. With the application of random number technique, the desired surprise element can be built in the model.

(vii) Branch Location Studies

The profitability of a future branch depends upon such factors as the market potential of the area it serves, the share of this potential market actually tapped by the branch, the total amounts of the branch deposits and its mix between the demand and time deposits, the earning yield realised and the expense ratios incurred by these deposits, the deposit growth rates that will materialise and the size of the initially required investment. The most sophisticated approach currently used by banks is to use their experience and judgement in making the best possible estimate of each of these critical factors and then apply the resulting numbers to compute the rate of return to be

anticipated if the branch were actually opened.

A model which incorporates the inter-relationships between such critical factors as demand deposits, etc. and other variables at branches with different characteristics can be developed. An attempt can thereafter be made to apply the rate of return concept to show why one branch might be preferable to the others.

It is proposed to develop the model for metropolitan/larger centres to begin with; the model inter se will identify locations within the city where branches could be profitably opened. The nature of business that could be undertaken will also be identified.

MANPOWER PLANNING PROJECTS

(i) Growth Pattern of Staff

The object of the project is to identify factors which affect the growth of manpower in the Bank so that the future manpower requirements at macro level could be estimated and steps taken well in time to provide for the expected growth.

(ii) Staffing Pattern of Branches

Manpower planning has to be tried at macro as well as micro levels. While the overall business trends could suggest the totality of requirements, the strength of staff required at branches to handle the work passing thereat, also needs to be planned. A study has to be made for working out a

model which would give the optimum level of staff required at branch level. The method currently attempted is development of relationship, based on 1970 data, between man-hours required and the workload as measured by certain units, such as, number of vouchers, number of drafts, M.Ts., etc. The non-measurable quantum of work passing at a branch could be quantified by expressing it as a percentage of measurable work.

(iii) Training Programme Scheduling

With the limited facilities for institutional training for Supervising Staff at various levels available currently, it is necessary that the training scheduling be regulated, rationalised and a model built up which will ensure adequate training at various levels. Based on Personnel Skills Inventory data, it may be possible to develop a model whereby the optimum scheduling of training programmes at the Staff Training College, Hyderabad, and other institutions can be achieved.

FINANCIAL SYSTEMS PROJECTS

(i) Profit Planning

Profit planning is one of the effective modern management tools which involves planning 'profit' that an organisation could make during the course of the next financial year and take necessary steps towards achieving the goal by keeping a continuous watch on the progress in this direction. With the budgetary system now adopted by the Bank, it is possible to develop a method whereby the profit for the next financial year is planned well in advance by forecasting the

credit requirements, deposits to be mobilised, increase in expenses, etc.

(ii) Interest on Circle Funds

The existing procedure for fixing of interest on funds lent or borrowed from Central Office can be further improved with a view to assessing the performance of branches more equitably.

(iii) Performance Index for Branches

An index to measure the performance of each branch taking into consideration the business level, expenses incurred and net result appears to be necessary. The current attempt is to develop the index based on the profits made and charges incurred by each branch during the current and the previous years. On developing a satisfactory index, it may be used to measure the performance of branches.

(iv) Introduction of Management Accounting in the Bank

The management accounting system, if implemented, would enable management information to flow automatically out of the records maintained by the Bank. Serious consideration has, therefore, to be given for re-orienting financial reporting system based on management accounting principles. A study of this aspect in depth is contemplated.

To conclude, it may be stated that the new technology is now finding its foothold in the State Bank of India — India's premier banking organisation. It will, however, be a long way before real fruitful and visible results can be achieved. One can only add that Management

Science places in the hands of management a powerful weapon in tackling complex banking problems. These studies are expensive involving long and unpredictable lead times and a good deal of patience and understanding would be needed if this activity is really to grow into a lasting and useful management tool. One thing is certain, that, when a bank develops the Management Science expertise, it will stand equipped to face any complexities of business situations with greater confidence |and in a more scientific manner.

(Shri Y. B. Damle is the Deputy Chief Officer in the Management Science Division at the Bank's Central Office.)

Current Topics

Report of the Direct Taxes Enquiry Committee

In March 1970, the Government of India appointed a committee of experts under the Chairmanship of Shri K. N. Wanchoo to suggest to the Government concrete and effective measures to (i) unearth black money and prevent its proliferation through further evasion; (ii) check avoidance of tax through various legal devices, including the formation of trusts and (iii) reduce tax arrears. The Committee was also asked to examine various exemptions allowed by the tax laws with a view to their modification, curtailment or withdrawal and indicate the manner in which

tax assessment and administration may be improved for giving effect to all its recommendations. The analysis and recommendations contained in the Committee's report are summarised below :

Black Money

Black money is generally used to denote unaccounted money or concealed income and/or undisclosed wealth, as well as money involved in transactions wholly or partly suppressed. Tax evasion and black money are closely and inextricably inter-linked. While tax evasion leads to creation of black money, black money utilised secretly in business for earning more income inevitably leads to tax evasion. Though the problem of black money has been faced by many countries in recent times, its consequences in a country like ours have a special significance in the context of our planned programme for economic progress within a democratic framework. Black money and tax evasion seriously undermine the equity concept of taxation and warp its progressiveness. Together, they throw a greater burden on the honest tax-payer and lead to economic inequality and concentration of wealth in the hands of the unscrupulous few in the country. The existence of black money has, to a large extent, been responsible for inflationary pressures, shortages, rise in prices and economically unhealthy speculation in commodities. Part of the black money which is not utilised in lavish consumption, goes into the purchase of bullion, precious stones and other valuable articles. This, in turn, encourages large-scale smuggling of gold etc., into the country, causing considerable strain on an already tight balance of payments position. Black incomes and tax evasion defeat Government's economic policies and it is one of the reasons why the Government's management of credit and money in recent years has been ineffective. Apart from under-estimating the resources available in the country thereby inhibiting investment planning, the operation of the black money economy has already upset the momentum of development and distorted the pattern of saving and investment in India.

The Committee has, therefore, warned that if the growth of black money is not checked in time, it will have disastrous consequences.

Extent of Black Money and Tax Evasion

While tax evasion in the country is believed to be substantial, the estimates furnished in the replies to the questionnaire varied widely from Rs. 100 crores to Rs. 15,000 crores. According to the Committee, tax evaded income was Rs. 811 crores in 1961-62, Rs. 1,216 crores in 1965-66 and Rs. 1,400 crores in 1968-69. The extent of income-tax evaded during 1968-69 was of the order of Rs. 470 crores. The money value of deals involving black money, may, therefore, be not less than Rs. 7,000 crores in 1968-69.

The tax evaded income is not lying hoarded which can be seized by the authorities. Much of it has been either converted into assets or spent away in consumption or else is in circulation in undisclosed business dealings. Black money is found widely used for conducting concealed business transactions, smuggling gold and luxury articles, purchasing illegally quotas and licences at premia, financing secret commissions, giving donations to political parties, acquiring assets in benami names, etc.

Causes of Tax Evasion

An important finding of the Committee is that high rates of taxation leads to tax evasion. "It is more profitable at a certain level of income to evade tax on Rs. 30 than to earn honestly Rs. 1,000." Shortages and consequent controls and licences, donations to political parties, corrupt business practices, ceilings on business expenses, high rates of sales tax and other levies, ineffective enforcement of tax laws and deterioration in moral standards are some of the other important causes for evasion.

Measures to Unearth Black Money

Despite a number of corrective measures taken by the Government from time to time, the twin problems of

black money and tax evasion have continued unabated. It was in this context that the Committee was called upon to recommend remedial measures both legal and administrative, to unearth black money and to prevent its further proliferation. The Committee accordingly submitted to the Government, an interim report towards the end of 1970 recommending therein some important steps of a radical nature for immediate implementation. After detailed deliberations and careful consideration, the Committee is fully convinced about the efficacy and feasibility of the measures recommended in the interim report. These measures have not been enumerated in the final Report.

The Committee has considered other measures like voluntary disclosure scheme, issue of bearer bonds, Swiss-type bank accounts and canalisation of black money into certain specified fields, as supplement to the earlier proposals and has found them unsuitable in view of their limitations. However, the power of search under the Income-tax Act is a potent instrument in the hands of the Income-tax Department to provide direct and clinching evidence about tax evasion and the existence of black money. The Committee has emphasised that the Department should make increasing use of its powers of search and seizure in appropriate cases backed by a better intelligence system than what is obtainable today. It has also suggested a number of changes so as to render this instrument more effective.

Measures to Fight Tax Evasion

Prevalence of high tax rates, according to the Committee is the first and foremost reason of tax evasion. Besides creating a psychological barrier to greater effort, they undermine the capacity and the will to save and invest. High rates of taxation fail to arouse public conscience against tax evasion. Moreover, the present high level of taxation leaves the Government with little scope for raising additional resources in times of emergency. The commit-

tee has, therefore, suggested that maximum marginal rate of income tax including surcharge, should be brought down from the present level of 97.75 per cent to 75 per cent. It has also advocated some reduction in tax rates at the middle and lower levels.

The Committee has recommended appointment of another committee of experts to enquire into the utility of all the existing controls, licensing and permit system with a view to suggesting elimination of such of those as are no longer considered necessary. In order that political institutions be free from corruption, removal of the ban on donations by companies to political parties is not considered advisable. The Committee would like the Government to finance political parties as is the practice in West Germany and Japan. It has recommended that entertainment expenditure which is incurred primarily for furtherance of the tax payer's business and is directly related to its active conduct should be allowed to be deducted up to a certain specified ceiling. Changes in penal provisions, vigorous prosecution policy and strengthening of intelligence and investigation system are the other measures recommended by the Committee to counter tax evasion.

Agricultural income, which is at present outside the Central tax net, offers plenty of scope for camouflaging black money. There is, thus, urgent need for agricultural income being subjected to a uniform tax more or less on par with tax on other incomes so as to eliminate the scope for evasion of direct taxes imposed by the Union Government. On grounds of equity and distributive justice, agriculture should also contribute to the national exchequer in much the same way as other sectors. The Committee is of the view that in the interest of uniformity and stability, the Central Government should assume the power to levy and administer tax on agricultural income. This can be done by the Centre either by obtaining the authority from the State legislatures or by amending the constitution suitably.

To bring about tight control on tax evasion, the Committee has advocated gradual replacement of the existing sales-tax levy on various commodities by additional excise duty. As sales-tax will still continue to be levied on some commodities, there should be greater co-ordination between sales-tax and income-tax authorities in the matter of exchange of information, collection of intelligence about evasion of these taxes and also taking preventive measures for checking tax evasion.

The Committee has recommended for a statutory provision being made in the law requiring maintenance of accounts by all persons in professions and by businessmen where the income from business exceeds Rs. 25,000 or turnover or gross receipts are in excess of Rs. 2.5 lakhs in any of the immediately three preceding years. It has also recommended making the presentation of accounts mandatory in all cases of business or profession where the sales/turnover/receipts exceed Rs. 5 lakhs or profit before tax exceeds Rs. 50,000. The Committee has suggested introduction of a new provision as an adjunct of income-tax act to increase the power of survey of income-tax officers. To ensure comprehensive and continuing survey on rotational basis the Committee has recommended setting up of adequate number of survey circles. Besides, larger cities like Bombay, Calcutta, New Delhi, Madras should have a survey Range. It has also advocated introduction of a system of permanent account numbers which will be of benefit to tax-payers as well as the Income-Tax Department.

There is need for a better liaison between the banks and the Income-tax Department from the point of view of fighting tax evasion. One of the important ways in which the system of permanent account numbers can be profitably utilised is to make it obligatory for all tax payers to quote these account numbers in their financial transactions through banks. A legal provision may be made under which tax-payers should quote their permanent account numbers in their applications for bank drafts, mail transfers, telegraphic transfers, etc., if the amount involved in such trans-

actions exceeds Rs. 5,000. The Committee has advocated that a suitable provision be introduced in the Banking Regulation Act, 1949, by which all banking companies coming within the purview of the Act should be under a statutory obligation to report to the Reserve Bank of India all financial transactions in cash over Rs. 25,000 which, in the judgement of the banking company concerned, are suspicious or unusual. The Reserve Bank of India should, in turn, be able to report all these transactions to the Central Board of Direct Taxes. Officers of the income-tax department should be statutorily empowered to obtain from banks information of general nature i.e., without reference to any particular tax-payer, provided the information is in respect of transactions over specified amounts. As the existing provisions of the Companies Act with regard to the system of blank transfer of shares are not adequate to check its misuse, the Committee has suggested suitable modifications in the law. Other measures suggested by the Committee for countering tax evasion are denial of credit facilities above Rs. 25,000 to tax evaders, tax treaties with other countries for information relating to tax evasion, tightening the provisions of the Stamp Act, checking under-valuation of immovable properties and rousing public conscience against tax evasion.

The Committee has not favoured re-introduction of expenditure tax as a measure to fight tax evasion but has suggested introduction of an expenditure statement as a part of the form of return of income as it would be quite effective in checking evasion through consumption expenditure without disturbing the existing tax structure.

Tax Arrears

Tax arrears have been a chronic problem and have of late assumed serious proportions. The causes of tax falling into arrears though many and varied, are linked to inadequacies of administration and inadequacies of law and

procedure. The Committee has, therefore, suggested a number of remedial measures. Recovery of arrears cannot be effective unless the field staff is on the move. The Committee feels it necessary to have a whole-time organisation, at least for some years, to deal with the matter, if any significant progress is to be made in writing off and scaling down of tax arrears which are partly or wholly irrecoverable. It has suggested suitable amendment to the law to authorise prosecution of tax defaulters and to create an automatic lien on properties, movable and immovable, of the tax payer in favour of the revenue on the lines of provisions contained in the U.S. law. A statutory provision may also be made empowering the income-tax authorities to levy a provisional attachment on the assets of the taxpayer whose case is under investigation for tax fraud, even before a tax demand is actually raised against him. The Committee has suggested that the provision relating to deduction of tax at source should be extended to cover payment of royalties, rents, professional fees and commission, made by all persons other than individuals and Hindu undivided families. The statute may also be amended to provide deduction at the rate of 3 per cent of the amount billed by a contractor in respect of any contract granted by the Central Government, State Government, local authority, a public sector undertaking or a company. The powers conferred on officers under the Income Tax Act 1961 should be exercised with vigour and firmness. To ensure strict control, the committee has recommended centralisation of work relating to processing of tax deduction returns, watching deductions and payments and taking enforcement action where needed.

Exemptions and Deductions

Taxation can no longer be considered as a mere device for raising resources. It is an important tool of economic development and social policies. In keeping with this objective, the Committee has recommended a number of tax exemptions and deductions to boost the economy. For

encouraging industrialisation of backward areas, concession in the form of accelerated depreciation equal to one and one-half times the normal amount of depreciation has been suggested. Tax rebate ranging from 5 per cent to 10 per cent of the tax payable by newly set up labour-oriented industrial units has been recommended. An incentive by way of tax rebate at the rate ranging from 5 to 10 per cent of the tax payable for every 10 per cent increase in output may be allowed to companies engaged in manufacture of specified goods to reward additional productivity. The Committee has recommended a uniform tax rate of 55 per cent for all domestic companies, whether public or private, abolition of sur-tax on companies and a capital levy of one per cent on all companies (including public sector ones). For small companies, a differential treatment either in the form of basic exemption or a lower tax rate has been suggested. New industrial companies should be exempted from capital levy for a period of five years from the date of their incorporation.

Tax Administration

The Committee has observed that shortcomings in tax administration can frustrate even the best of tax policies. The ills that beset the tax administration are many and have led to both tax evasion and tax arrears in a big way. The Committee feels that if tax administration is to be effective, it should necessarily involve certain basic changes in its set-up and methods. It has accordingly suggested that the Central Board of Direct Taxes be reconstituted as an independent and autonomous Board with greater financial powers. The present Directorate of Inspection (Research, Statistics and Publication) is to be split up into (a) Directorate of Publications and Public Relations and (b) Directorate of Research and Statistics. Since there is wide scope for intelligent and useful research work relating to taxation, modern methods of compilation and processing of statistics should be adopted. In this connection, the committee has favoured computerised data processing. It has suggested

the liquidation of the existing Organisation and Planning Division of the Board and creation of a separate Organisation and Methods Directorate for carrying out organisation and method studies and developing organisational pattern and procedures to suit the changing complexion of law and work.

Legal Decisions

On Banking

Transfer of Property Act — Section 67-A — Scope of

S. Rajagopalaswami Naidu

Appellant

vs.

The Bank of Karaikudi Limited

Respondent

AIR 1971 Supreme Court 884

Contributed by N. K. Randeria

On the 14th October 1950, the appellant mortgaged his property to the bank as security for a loan of Rs. 45,000. A sum of Rs. 5,000 was repayable on a specified date and the balance within two years from the date of the mortgage deed. Interest was payable at the rate of $10\frac{1}{2}$ per cent per annum and in case of default the rate of interest charge-

able was 12 per cent per annum from the date of the default. In January 1952, the wife of the appellant mortgaged her property to the bank by depositing the title deeds as security for a loan of Rs. 25,000 obtained by her jointly with the appellant. On the 22nd June 1952, both the appellant and his wife mortgaged to the bank their individual properties as security for repayment of a sum of Rs. 8,850. In 1953, the bank filed a suit on the basis of the last two mortgages and obtained a decree against the appellant and his wife. The decree appeared to have been satisfied. In April 1958, the bank filed a suit against the appellant on the basis of the first mortgage.

The main defence of the appellant was that the suit was not maintainable in view of the provisions of Section 67-A of the Transfer of Property Act, and that the rate of interest stipulated was penal and contravened the provisions of the Usurious Loans Act, 1918.

The Trial Court rejected the defence and granted a preliminary decree for Rs. 40,000 and interest at 12 per cent per annum from the 1st August 1952 till the date of the decree and thereafter at 6 per cent per annum till realisation.

The decree was confirmed by the High Court and against the decision of the High Court, the appellant preferred an appeal to the Supreme Court.

The Supreme Court considered the provisions of Section 67-A of the Transfer of Property Act, which provided that a mortgagee, who held two or more mortgages executed by the same mortgagor in respect of each of which he had the right to obtain the same kind of decree under Section 67, and who sued to obtain such decree on any one of the mortgages, would, in the absence of a contract to the contrary, be bound to sue on all mortgages in respect of which the mortgage money became due. The Supreme Court observed that the Section 67-A was inserted in view of conflicting decisions of the High Courts with regard to the right of the mortgagee to sue at different

times on different mortgages although the mortgagor was one and the same. The Supreme Court observed that to attract the provisions of Section 67-A, it was essential that the mortgagor was one and the same individual and that he had executed two or more mortgages in respect of which he had a right to obtain the same kind of decree under Section 67. In the present case, the appellant and his wife were the owners of separate and distinct properties and both joined in mortgaging their respective properties. For the purpose of the mortgages, there was no statutory provision or rule or principle by which the wife and the husband could be treated as one entity. The Supreme Court, therefore, held that the provisions of Section 67-A would not be applicable as the properties were mortgaged by two individuals (husband and wife) and not by a single person.

On the question of interest, the Supreme Court considered the provisions of the mortgage deed and all the circumstances and observed that the rate of 12 per cent per annum was unfair and penal and ordered that interest should be calculated at the rate of $10\frac{1}{2}$ per cent per annum from the date of mortgage to the date of the preliminary decree.

Accordingly, the decree passed by the Trial Court was modified suitably.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 28-4-1972	A Month Ago 31-3-1972	A Year Ago 30-4-1971
State Bank of India			
Total Deposits :	1,647.2	1,656.9	1,314.1
Demand (Exclusive of inter-bank transactions)	775.2	812.6	612.5
Time (-do-)	872.0	844.3	701.6
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,117.5	1,094.8	1,063.6
Total Investments	455.1	421.9	345.3
Subsidiary Banks			
Total Deposits :	424.7	414.3	362.0
Demand (Exclusive of inter-bank transactions)	175.2	172.0	149.6
Time (-do-)	249.5	242.3	212.4
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	327.0	329.8	294.9
Total Investments	90.8	90.9	71.8
All Scheduled Commercial Banks			
Total Deposits :	7,207.0	7,053.7	5,993.1
Demand (Exclusive of inter-bank transactions)	3,128.2	3,062.9	2,630.8
Time (-do-)	4,078.8	3,990.8	3,362.3
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc. ..	5,189.2	5,222.3	4,675.3
Total Investments	1,711.8	1,651.7	1,359.6

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	Decem- ber 1971	Septem- ber 1971	Decem- ber 1970
State Bank of India			
No. of Offices ...	2,477	2,350	2,112
Finance to Small Scale*			
Industries :			
No of Units Assisted	38,489	36,858	34,084
Limits Sanctioned ...	262.12	253.71	246.51
Outstandings ...	176.88	168.91	151.76
Direct Finance for Agriculture :			
No. of Accounts ...	1,93,852	1,97,251	2,16,155
Limits Sanctioned ...	68.91	68.77	74.07
Outstandings ...	47.70	46.45	51.81
Indirect Finance for Agriculture :			
No. of Accounts ...	920	925	1,047
Limits Sanctioned ...	96.78	93.10	177.11
Outstandings ...	41.07	49.73	70.56
Export Finance :			
Outstandings ...	108.05	114.60	92.93
Subsidiary Banks			
No. of Offices ...	1,304	1,259	1,149
Finance to Small Scale*			
Industries :			
No. of Units Assisted	19,650	19,364	17,212
Limits Sanctioned ...	90.35	89.34	84.91
Outstandings ...	50.19	47.53	44.54
Direct Finance for Agriculture :			
No. of Accounts ...	65,414	67,257	65,645
Limits Sanctioned ...	31.97	30.96	33.46
Outstandings ...	21.15	21.90	23.53
Indirect Finance for Agriculture :			
No. of Accounts ...	801	713	656
Limits Sanctioned ...	16.62	17.62	26.51
Outstandings ...	6.97	7.29	11.92
Export Finance :			
Outstandings ...	14.03	12.92	11.86

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 28-4-1972	A Month Ago 31-3-1972	A Year Ago 30-4-1971
(Amounts in rupees crores)			
1. Money Supply with the Public ...	8,207	8,042	7,281
(a) Currency with the public ...	4,914	4,806	4,509
(b) Deposit money with the public ...	3,293	3,236	2,772
	March 1972	February 1972	March 1971
2. Foreign Exchange Reserves ...	848.7	868.9	732.3
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	8½	8½	8½
(c) State Bank of India Hundi... Rate ...	8¾-10½	8¾-10½	9½
(d) Call Money Rate (Bombay) ...	8.1	7.5	10.9
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

	August 1971	July 1971	August 1970
4. Index Number of Industrial Production (1960=100)			
General Index ... (Adjusted)	181.7	184.1	174.3
	Week ended 29-4-1972	Week ended 25-3-1972	Week ended 1-5-1971
5. Index Numbers of Wholesale Prices (1961-62=100)			
All Commodities ...	192.4	192.2	181.2
Food Articles ...	216.8	216.4	201.5
Liquor and Tobacco	217.4	206.9	181.3
Fuel, Power, Light and Lubricants	177.7	177.9	162.3
Industrial Raw Ma- terials	175.1	178.7	187.4
Chemicals ...	198.8	198.8	188.8
Machinery and Transport Equipment ...	165.2	162.7	152.6
Manufactures ...	173.2	173.4	161.7
	February 1972	January 1972	February 1971
6. Consumer Price Index Numbers for Industrial Workers (1960=100) ...	193	194	184
7. Foreign Trade			
	(Rupees in crores)		
Total Imports ...	152.1	177.8	134.3
Total Exports (includ- ing re-exports)...	134.9	143.4	102.4

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Productive Capacity—The Criterion for Bank Financing*

R. K. Talwar

Introducing the Chairman to the listeners the All India Radio announcer said that Shri Talwar was in Calcutta and 'we took the opportunity to record this interview for Radio News Reel'. Here are the questions and answers.

Question : Mr. Talwar, there seems to be a general impression that on paper the State Bank has got wonderful schemes for helping our small scale industrialists and agriculturists regarding loans and things like that, but when it comes to actual practice, things are far from what is painted out to be.

Mr. Talwar : Well. The very fact that the State Bank organisation has been able to lend to as many as over 58,000 small industrial units amounts aggregating Rs. 225 crores shows that this is not just a paper demonstration. The complaints usually come from parties who have not been able to establish to the satisfaction of the lending bank their full credentials with regard to their production capacity, their experience and their financial position. It is often represented to us that the Bank does not look so much to the viability of the enterprise as it goes out to seek security. That is not at all correct. The

* All India Radio, Calcutta, interviewed the Chairman for its Radio News Reel Programme on the 24th March 1972. This is the text of the interview.

State Bank is very proud that it has lent money to persons who have offered nothing to the Bank as security. There are small industries that have been set up with hundred per cent finance provided by the Bank. We have, I would say, not only taken the risk but also demonstrated our confidence in the entrepreneurs who have come up with sound schemes. It has to be remembered here that every bank deals with the funds of its depositors; the trust that has been reposed in the bank by the depositor is based on the faith that the bank will look after their safety. So while we are very sincerely wanting to be helpful to the entrepreneurs, we also expect them to help us in understanding what they can do, what they can produce and how they will sell, so that the dialogue can be fruitful and will result in a meaningful relationship as a lender and borrower.

Question : What is the basis on which you lend money? Could any Tom, Dick and Harry come and approach the State Bank of India and say, 'Look, I have got a project in hand, I want some money'?

Mr. Talwar : The mere mention of a project will not carry him far. He will have to explain to us what his project is in detail; he will have to explain the total cost both of plant and machinery and the funds that will be needed for running the plant and machinery. He will have, then, to explain what sources there exist for providing the finance and what is the gap; that gap we offer to fill. But this offer has to be supported by the technical know-how of the person, his scheme passing the test of technical and economic viability and his prospective profits being adequate

to take care of the repayment of the loan in instalments that are settled by mutual consultations.

Question : How long will it take for him to get a definite answer from the State Bank of India?

Mr. Talwar : There can be no clear cut reply to this question. Very much depends upon what the entrepreneur himself presents before the Bank. If he has done his home-work well, he should be able to get the answer within three months. If he has not done his home-work well, then there will be a lot of delay. Even these three months look long, but then, we feel, it is better that this time is spent in understanding each other so that once the unit starts functioning and the loan becomes operative, no problems arise in the working relations thereafter, and that has been our experience. Once this relationship is established, future problems are tackled better.

Question : There is the question of chronic unemployment. I was wondering whether the State Bank of India has been casting its glance, its helping glance, towards this direction or not.

Mr. Talwar : Unemployment arises in respect of those who are educated and those who are not educated. The latter is largely in rural areas. So far as the educated unemployment is concerned, the mere offer of finance by a bank, in my humble opinion, does not produce employment. Because, the individual concerned should not only be willing to start some business, but he should also have the aptitude for starting and doing the business. Secondly, unless in a given area prospective possibilities are identified — and this can be done by the planning

authorities, the State authorities — the integration of finance with the creation of employment opportunities does not go hand in hand. To quote an example, in the City of Calcutta, in particular, we have had the distinctive privilege of being associated with a scheme where a local Foundation gets its contracts for civil works. It sub-contracts to a number of unemployed civil engineers. These civil engineers are backed by finance from the State Bank of India, and we have had the experience of over 250 to 300 such engineers having been able to establish this relationship, which has resulted in their having an income of Rs. 400 to Rs. 500 per month. This satisfying experience has resulted in the civil engineers being able to handle a little more load of work, and we have offered to give a further supply of loans. This explains that if there is a proper study of the possibilities, if there is some one who can provide them a proper market — and here it was this Foundation — then creation of planned opportunities, particularly for the technically qualified people, through the Bank's assistance, becomes possible and worthwhile. We want to start organisations within the Bank at selected centres where any one who sincerely comes forward with a proposal that has prospects for profits in business, will receive sympathetic response. We would go into the depth of it, irrespective of whether it falls within a scheme existing in the Bank or not, the object being to study, to research, and to see how unemployment could be tackled by banking as an instrument of national policy.

Changing Role of Banking in India*

L. D'Mello

Basically, economic planning involves changing the pattern of saving and investment with a view to maximising the rate of growth of national income and the welfare effect of its distribution. Economic planning, therefore, presupposes the planning of the financial system of which commercial banks form the most important element. Apart from this general consideration, the circumstances under which Indian banking system and its procedures developed left many gaps from the point of view of its being an effective instrument of economic planning. Bank branches were concentrated in urban centres and rural areas in the interior were not provided with adequate banking facilities. Secondly, bank lending was security-oriented with the result that important sectors of the Indian economy, viz., agriculture, small scale industries, cottage industries and small business, which could not provide adequate security against loans, remained outside the purview of the banking system. Thirdly, the close association of the banks with big business houses led to a large proportion of bank advances being given to large

* Reproduced from the May 1972 issue of the Journal of Industry and Trade.

scale trade and industry on preferential terms, which resulted in concentration of economic power.

The above deficiencies of the banking system came into focus at the beginning of the planning era itself. The Reserve Bank of India attempted, by various measures, to overcome the deficiencies. Accordingly, systematic branch expansion programmes were implemented. Attempts were also made to redirect credit from trade to industry and to prevent its use for speculative purposes as also for accumulating excess inventories. In regard to the financing of small scale industries, a credit guarantee scheme was sponsored, which induced larger flow of credit to that sector. Preferential terms were also given for the financing of exports. Despite these efforts, however, the conflict between social benefit and private profit made the progress of rationalisation of the banking system slower than was desirable. Social control of banking, which was implemented in 1968, aimed at reducing the influence of private interests over banks by professionalising their managements. For expediting the rationalisation, 14 major Indian banks were nationalised in 1969. Together with the State Bank of India, which was established in 1955, over 85 per cent of the banking system is now under Government ownership and is aligned with national objectives and policy.

Indian banking system today is evolving itself as a powerful instrument of planning for economic growth. Experience over the last two decades has highlighted the fact that growth and social justice are not only not contradictory but are in fact a complementary. Under Indian conditions, modernisation and rise in the productivity of agriculture, small industries, cottage industries and small business are essential for generating resources for further growth of the economy and also at the same time for advancing the cause of social justice. These sectors contribute a major portion of the national income, produce essential raw materials and provide demand for the products of large scale industry. Social justice secured by

widening employment opportunities and increasing the output in these sectors would contribute, in the short-run, to the rise in national income on a much larger scale than would be possible by the expansion of capital intensive large scale industries. They would also develop entrepreneurship and business skill on a wide scale all over the country, which are essential for raising the technological level of the economy as a whole. Larger allocation of credit to these hitherto neglected sectors will mean greater economy in the use of credit in the large scale sectors of industry and commerce. Considering the fact that in the past large scale sector, controlled especially by big business houses, had utilised bank credit for unapproved purposes, a restriction on the supply of credit to these business houses would be a welcome development. In fact, prevention of further concentration of economic power by use of public resources is considered as a policy-end by itself. But with the increasing deposit potential in the country in general and rural areas in particular, the legitimate demand for credit of the large scale sector for production purposes should and can be met.

The new role of commercial banks is indicated by the re-orientation of banking policy, which has four aspects: (1) area approach in the provision of banking facilities, (2) greater alignment of credit policy with the objectives of national economic policy, (3) emphasis on balanced regional development and (4) allocation of credit in consonance with Plan targets.

Area Approach

In the development of banking facilities including mobilisation of deposits and extension of credit, banks are now expected to act as catalytic agents of economic development at the local level. The programme in respect of this aspect of banking policy is embodied in the Lead Bank Scheme. Under this Scheme, all the districts of the country other than metropolitan areas and a couple of Union Territories, have been allotted for development

among the public sector and private sector banks. The banks have already carried out surveys of the districts with a view to pinpointing the credit gaps and estimating the deposit potential. Following these surveys, growth centres are being identified for opening branches and developing banking business. It is expected that co-ordination committees of all financial institutions will be constituted in each of the districts, which will take follow-up action consistent with the implementation of district development programmes. The Lead Bank Scheme provides the organisational frame-work within which various policy measures of commercial banks in regard to deposit mobilisation and credit supply can be implemented in a systematic manner.

Alignment with Economic Policy

The principal objective of nationalisation of major commercial banks was that the various important sectors of the economy, which were hitherto outside the banking fold, should be provided credit facilities in proportion to their importance in the national economy. From the point of view of increasing the employment potential, extension of credit to these sectors as also to qualified entrepreneurs and skilled craftsmen has been considered as an objective of policy. In regard to provision of employment-oriented schemes, it is necessary that credit supply is matched with the availability of other inputs and infrastructure and marketing facilities. Accordingly, it has been decided to set up multi-service agencies in the areas of operation of the schemes. In regard to financing agriculture, small scale industries, small business, etc., the aim is to raise them to a higher level of technology. Naturally therefore, credit will be made available by the banks for current production as also for developmental purposes. In respect of the developmental finance given on term loan basis, the amortisation will be matched with the profit earning capacity so that in the initial years repayment instalments will be lower than in the later years. In order to enable the banks to face a measure of risk involved in

financing the priority sectors, a credit guarantee scheme has been instituted under the Credit Guarantee Corporation. Loans given to small farmers, small manufacturers, retail traders, transport operators, small businessmen, professionals and self-employed persons are eligible for guarantee. Credit supply will be need based; the purpose and income generating capacity of the project financed rather than security will determine the quantum of credit.

Thanks to these various measures, flow of credit to the priority sectors has greatly increased. Since nationalisation of major banks and up to June 1971, nearly three-fourths of deposit increase, net of statutory investment, has been absorbed in credit to these sectors. Of the total increase in bank credit during this period their share worked out to 68 per cent. The share of credit to these sectors rose from 14.5 per cent of total advances at the end of June 1969 to 23.8 per cent at the end of March 1971. Scheduled commercial banks' outstanding advances to two of these sectors, agriculture and small scale industries, increased from Rs. 4,825 million in June 1969 to Rs. 9,317 million in June 1971, and the relative number of accounts increased from 0.35 million to 1.22 million. This is a clear indication that social purpose has come to be an important factor in credit disbursal.

Regional Development

As already mentioned, one of the serious deficiencies of banking development in the past was that the spread of banking in the interior of the country was not adequate. Some regions suffered from this neglect more than others, with the result that as late as 1967, as many as 13 districts were without any commercial bank office whatsoever. As between various States, whereas some like Maharashtra, Gujarat and Tamil Nadu were very well banked, others like Jammu and Kashmir, Assam, Uttar Pradesh, Orissa and Madhya Pradesh suffered from comparative neglect. Thus there was a two-fold flow of funds, which was contrary to what would be considered desirable from

the point of view of economic development of the country; there was a flow of funds from rural areas to urban areas and from underdeveloped States to comparatively developed States.

After nationalisation, there has been a rapid expansion of branches particularly in the underdeveloped States and regions. As compared to 677 in 1968, the number of offices opened increased to 1,369 in 1969, 2,137 in 1970 and 1,254 in the first ten months of 1971. As a result of this branch expansion programme, the average population served per office declined from 65,000 in June 1969 to 41,000 in October 1971. Priority has been given to opening bank offices in unbanked areas. Thus out of 3,763 offices opened during the first two years of nationalisation, as many as 2,480 offices, i.e., 66 per cent were opened in unbanked centres. Even out of these offices opened in the hitherto unbanked centres, as many as 34 per cent were opened in the relatively underdeveloped States of Uttar Pradesh, Bihar, Orissa, West Bengal, Assam, Madhya Pradesh and Jammu and Kashmir. A perspective plan to open 5,000 more offices during the three years 1972 to 1974 has been prepared to further extend the branch network and banking habit all over the country.

One aspect of regional development through branch expansion is that the advances given to hitherto neglected but priority sectors viz., agriculture, small industries, small business, etc., at the new offices would be proportionally more in under-developed States and regions than in the developed ones. In 1966, the average credit-deposit ratio of bank branches in rural areas ranged around 40 per cent, whereas for the banking system as a whole the ratio was around 70 per cent. This ratio is now improving. For the new offices opened after July 19, 1969, the credit deposit ratio in rural areas was as high as 70.4 per cent at the end of June 1970. The beneficial effect of financing priority sectors and employment-oriented schemes would be all the greater if deposit mobilisation in the rural areas also rises proportionately.

Credit Planning

The expansion of credit to organised industry and trade during the Second and Third Plans was larger than warranted by the increase in production and prices. A part of the increase in credit was utilised to acquire fixed and other non-current assets. Such mis-direction involved short supply of credit to other sectors and industries with the result that the balance built into Five Year Plans was upset; whereas growth of some industries was more than anticipated, in others it was less than targeted for. The need to supply credit according to targets of production and investment fixed in the Five Year Plans cannot be over-emphasised. This will involve a measure of credit rationing based on careful appraisal of projects financed and their cash flows. Restraint on credit expansion for unapproved purposes in the large scale sector is also necessary with a view to providing the means to meet credit requirements of hitherto neglected sectors. Various measures have been taken in pursuance of the objective of greater alignment of credit allocation to sectoral targets of production laid down in the Plan. In respect of large advances, the Reserve Bank of India has evolved a credit authorisation scheme. Under the scheme, banks are required to furnish and make use of data, which identifies the purpose of the advance and the quantum of credit which would meet the purpose. A Bill Market Scheme has also been implemented to prevent double financing as also to enforce repayment of credit according to a pre-arranged schedule. Method and criteria of credit allocation, both to large scale and to small scale sectors, are under constant scrutiny with a view to improving them so that they subserve the purpose of allocating credit according to social priorities and Plan targets.

Resource Mobilisation

Adequate extension of credit for the purpose of financing priority sectors as also large scale sector on an increasing scale depends upon adequate mobilisation of

resources by way of deposits. Recent re-orientation of banking policy lays great deal of emphasis on this aspect of banking operations. Credit extension to the small scale and employment-oriented schemes whether in agriculture, industry or trade is sought to be linked with the creation of deposit potential. The green revolution and rising prosperity in rural areas provide immense scope for deposit mobilisation. The large branch expansion programme already undertaken and now contemplated would provide the institutional means for mobilising deposits both in the rural and urban areas. Banks have adopted a market oriented approach to deposit mobilisation and new schemes tailored to suit the needs of various sections of the population have been evolved and implemented.

The new orientation in policy is designed to make the banks dynamic institutions capable of meeting the emerging needs of a planned and growing economy. Unlike in the more developed countries, where a variety of non-banking financial institutions exist, Indian commercial banks will have to take a major share of the responsibility for mobilising savings and channelling them in the socially most desirable lines of investment and production. Considering the propensity of Indian people for holding savings in stocks of commodities and gold, which involves misdirection of resources, mobilisation of deposits amounts to mobilisation of savings. Extension of credit to raise the technological level of production process and after careful scrutiny of the projects financed, both in the large scale and small scale sectors, imposes a measure of financial discipline, which is expected to increase productivity and investible resources. Thus the role of commercial banks now envisaged is that of a motor-force for accelerated economic growth with social justice.

(Shri L. D'Mello is the Chief Officer in the Bank's Economic and Statistical Research Department.)

Budgeting : A Look at its Uses

K. Srinivasa Rao

Modern business organisations are making increasing use of budgetary control in their efforts to assure their growth and profitability. There is practically nothing in the world that is constant except change. Business organisations in the modern times are no exception to the rule that things either grow or decline and disappear from the scene; they are rarely static. In the present day competitive world, it has become imperative for business organisations to look around and constantly plan the course of action even for their continued existence in a changing environment, let alone growth. A sort of plan has of course always been necessary for any kind of future operations, but in a modern organisation — which usually represents huge groups of people coming together to achieve some common on-going purpose — it is essential that the people in it know formally and precisely what they stand for, their programme of action, the expectations from each of them and the standards by which they are going to be evaluated. The style of management known as Management by Objectives is taking

deep roots in the running of organisations. Budgets are a specific part of this style of management.

Management by Objectives

Briefly, Management by Objectives consists in precise identification of the objectives, establishment of a practicable programme to achieve them and evaluation of performance in terms of the measured results. The process of putting this in practice is, however, far more complex. If the present day organisations are taking to this mode of management despite its complexity and the problems thrown up in its implementation, it is decidedly because of the obsolescence of the old style of management — that is, management by crisis, by unpreparedness, by the chief executive and the top management not having definite ideas of where they want the organisation to go, or if they have, letting only a selected few in the organisation know of those ideas and by judging people by reacting to their actions without laying down in advance what kind of actions are expected of them. However well the old style of management might have worked in days of old, it is definitely out of place in the present day, when the operations of business units have become complex beyond imagination. Nowadays a vast army of middle and lower level managers have to take quick and independent decisions by swiftly assessing local circumstances and effects of their action, without waiting for orders from above. They have of course to work within the framework of the organisation's policies to the extent that they are known, but at the same time, they rightly expect that no blame shall attach to them on the subjective ground that their actions might not be to the liking of the superiors. They expect that they would not be criticised on the only basis that they have not made a "good" decision, without the management first clarifying what can be objectively called a "good" decision. All this calls upon the top management to lay down its objectives, policies and strategies with clarity and consistency, communicate them effectively at

all levels of the organisation, set up the planning and control procedures, and spell out standards of evaluation of the people in the organisation.

Planning and control procedures, which spell out how the organisational objectives are to be achieved, are of great importance. The words planning and control are often misunderstood. It is easily seen that some amount of planning is necessary for every type of activity. Even at the line level, which is supposed to be concerned with operations all the time, some planning is done. The Manager of a branch of a bank, at the beginning of the day, has to plan his own work, allocate his staff, specify the activities to be carried out by others under him, etc. A greater amount of planning is similarly called for at the level of middle managers. However, this is not the type of planning we mean when we talk of planning and control. Here planning stands for the process by which the top management lays down the programme of action through which the organisation can reach predetermined objectives. Usually this is made up of short-term planning for the succeeding year of operations and long-range planning covering a few years in future. And the word control stands for the process by which the top management ensures that the organisation reaches, at different times, predetermined levels of business and profits. It is the process by which, if a unit is not where it should have been at a given time, steps are taken to see that the off-course movement is corrected as early as possible.

The process of control is not to be understood in a negative sense. It is not a method for restricting action. It has nothing to do with checking expenses by chasing half-pence. It is purely a guiding mechanism by which we can keep to pre-fixed levels of activity.

Budgets

In this process, where do budgets come in? First, what are budgets? Budgets are management plans for

a definite future span of time, usually one year, in financial terms. They include all parts of the organisation, and cover expected operations and results of the period in question. They are statements of what the goals are in money terms, what the resources must be and how to match them. William J. Vatter says: "Budgeting is a kind of 'future tense' accounting, in which the problems of the future are met on paper before the transactions actually occur".¹ It is easily seen that in any modern organisation planning and control mechanism, in practical terms, automatically takes the shape of budgets. In fact, budgeting is identified by some authors as primarily a planning and control system.²

Budgets talk of specific business operating levels and the levels of contribution to profits, to be achieved by the various units of the organisation. They may, for example, deal with sales, purchases, production, labour costs, overheads, cash position, receivables, inventories, debts, product-line surpluses, etc. The levels set up are again subdivided over shorter periods within a year, say month-wise or quarter-wise, for purposes of feedback and control. It is quite clear that there cannot be any universally applicable forms of a budget; each organisation has to invent the forms that serve it best, keeping, of course, the general principles in mind.

Attributes

Budgeting has certain attributes, which distinguish it from targets and financial plans, which are brought out to check expenditure or purely to project the future.

First, budgets are not mere forecasts. They no doubt concern the future but in addition they set out in clear

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1. William J. Vatter, *Operating Budgets*, Wadsworth Publishing Co. Belmont, California, 1969, p. 16.
 2. See, for example, Reginald L. Jones and H. George Trentin, *Budgeting: Key to Planning and Control*, American Management Association, Inc.

terms where the top management of the organisation wants the organisation to reach by the end of the budget period. The chief executive, who is responsible for the health and progress of the organisation, is usually charged also with the none-too-easy task of spelling out what the organisation should achieve, in contrast to what it might achieve in the ordinary course if it had no definite plans and decisive programmes of action to back them. In other words, the budgets, after they are completed, reflect the management's mind and its determination of goals.

Second, budgets are to be operated essentially in a competitive world amid tough circumstances and the chief executive has, therefore, to pay attention, while framing his views on goals, to a host of factors affecting the organisation's operations. In particular, the past performance of the organisation, the present strengths and weaknesses and the economic situation in which the organisation operates are the three corner stones on which a policy formulation should be based. In other words, there is no room for casualness and wishfulness, but only scope for complete objectivity where facts are concerned and sound reasoning and use of experience where value judgements have to be made.

Third, budgets call for active involvement of the "grass roots" level, i.e., the line people who are responsible for achieving them. They have to evolve their own parts of the budget, having regard to the policy of the top management, local environment, capacity of their own units, etc. Budgets, therefore, tie up all levels in active co-operation. In this, as in other things, the thinking seems to be: "No commitment without agreement". The budgets set up by them have, therefore, to be integrated and changes found necessary have to be reasoned and settled with them, so that a mutually acceptable activity level is arrived at. Without this settlement process which is their most dominant feature, the budgets will only remain plans on paper because they fail to motivate people by lack of acceptance.

Fourth, corrective action is an essential feature of the budgeting process. If the entire gamut of activities ending in budget preparation is gone through without a fault, but still no action is taken when deviations show up at the time of performance, then budgeting will serve only as a very sophisticated tool of data gathering. It will be useless as a device to reach predetermined goals, which after all is its prime purpose.

The higher levels of management come to know of the need for corrective action by the method of information collection known as performance reporting. Performance reports are sent up by the various units charged with budget responsibilities at periodical intervals, and they indicate the deviations from pre-fixed sub-goals. These reports are a prelude, not an alternative, to action. Sometimes it is easily seen from the feedback itself what type of corrective action should be taken. Sometimes, seeking out the cause for failure and dealing with it call for hard thinking at the higher levels. In all cases, however, the aim is to take action to check future deviations, not to take vengeance: when the slightest semblance of the latter is present, the operating people might fight future budgets. As in the case of budget settlement, corrective action is a process of joint exploration and should be seen so by one and all. This does not, of course, mean that when a budget is not reached through mere inaction on the part of the man who is responsible for its fulfilment, no action should be taken to ensure that he falls in line with others.

Administrative Aspects

Usually, the budgeting process starts with the chief executive sending out a budget letter, or a policy guideline, to the lower levels, after the advisory departments have thoroughly scanned the economic scene and have helped him to arrive at an idea of desirable levels of business and consequent results. The operating people go over the economic and other factors affecting their activities and

bring up their own budgets, keeping the chief executive's directions predominantly in mind. These are then collated, adjustments are discussed between operating people and the higher officials, and final figures are arrived at. Budgets are now ready for implementation.

The above is the ideal method. In organisations where there are three tiers of management, as in the case of the State Bank of India,³ we have, however, to strike a compromise between conceptual purity and practical necessity. It would not be practicable in such cases to obtain budgets from the bottom tier, aggregate them at the middle tier and submit them to the top tier for adjustments. The top and the middle tiers have to arrive, as between themselves, at realistic levels of business and results by analysing the environmental situations and the capabilities of the organisation. The rest of the budget process then follows as though the top tier were substituted by the middle tier.

Uses

It is clear that the heart of the budgeting process is common agreement as to operations and results. Given normal human behaviour, this means that the organisation has, by the budgetary process, ensured for itself co-operative action from all personnel towards the goals. Barring exceptional circumstances, a person who has agreed to do certain business and make a definite amount of contribution to the organisational growth, will strive to do so as a matter of honour.

What budgeting leads to is considerable autonomy within each unit in the organisation. Subject to overall corporate policies, normally sufficient freedom is allowed to the man who has budget responsibility, to work towards his goals without undue procedural restrictions and administrative inhibitions. This is because the organisation is more interested in the man reaching his objectives and

3 i.e. Central Office, Local Head Offices and Branches.

would remove all obstacles which might unnecessarily stand in the way. This automatically means a certain amount of independence of operations, the overall control mechanism being provided by the budget itself.

For the organisation itself, budgets mean preparedness. The very act of scanning the future — though only the near future — making explicit every detail of operation in relation to it and succeeding in making all members of the organisation assimilate the analytical process — all these make the organisation face the future with a better state of mind and competence. Later catastrophes, if any, do not take such organisations completely by surprise; at least, they cannot knock them down. The power of analysis is such that it puts the organisations back on their feet soon after the first shock of unexpected events has died down. In this respect, such organisations are in a better position than those who merely skim the economic surface and then find themselves in the thick of the events without prior preparedness.

What Budgets are not

Budgets do not have it in their power to turn away events which take place irrespective of whether the organisation has adopted budgetary control or not. Coming events cast their shadows, and it is the scanning of the shadows that is one of the most important processes in the budgetary mechanism. All that can be claimed is that it ensures, as stated above, a better preparedness to meet the event through its forewarning signals. In any organisation, this itself is of course a great benefit.

Sometimes it is asked whether budgeting would automatically ensure the health and growth of organisations. Budgets are not a panacea for all organisational ills. Personnel problems, for example, cannot be expected to disappear on adoption of budgeting; we need to take specific remedial steps to remove such problems. But the organisational diseases which budgeting definitely helps

us to cure are aimless management wandering in the business jungle, lack of definite short-term corporate policies and strategies, absence of communication of specific goals, lack of integrated action, absence of development of standards of evaluation, and the like.

Budgetary process is not “a predigested food in a disposable container” and you are not automatically better off by merely swallowing it. It is just a philosophy with, no doubt, a few problems but a great many good features to outweigh them. It has to be consciously practised for its benefits. As in other cases, the more the commitment up the line, the more the involvement down the line.

Problems

The most obvious problems of the budgeting process are that it generates pressure and that it is essentially a process involving people, and therefore, the delicate side of human relations, when the question of corrective action comes up.⁴ These have to be seen as problems by one and all and the organisation must do all in its power to ensure that the problems do not unnecessarily grow or get out of hand. In view of the overwhelming rewards that budgeting offers, to give up budgeting merely because of the problems would be like throwing away the baby with the bathwater.

Rewards All-round

We have now an inventory of what budgeting does for the organisation: it ensures, when it is properly worked, increased profitability, greater preparedness, effectiveness and competence, organisational growth through bigger market share, integrated approach to problems, concerted action on the part of all personnel,

4 See Chris Argyris, Human Problems with Budgets, Harvard Business Review, Vol. XXXI, No. 1, pp. 97-110.

etc. But what does it do for persons within an organisation as persons?

Perhaps it is not possible to draw up an equally impressive list of benefits here but the advantages are still very great. The most tangible benefit to the individual is a sense of balance and direction. To a responsible individual worker in an organisation, there is nothing that works like a tonic as understanding clearly what is expected of him by the organisation. Through budgets, the people have before them a chart of their expedition unmistakably laid down. A man may be interested in many pursuits outside his job, but as far as his profession is concerned, there is nothing that relieves him from anxiety and gives him satisfaction like an appreciation from his superior on achieving the goals set up or an understanding of the problems in the way. This may be so notwithstanding the fact that the goals may be quite commonplace in themselves and may not contribute directly to good and worthy ideals such as, say, removal of poverty, increase of total human happiness, and so on and so forth. A positive contribution to goals is a psychological reward for the individual himself. Budgets and performance reports do compel the higher levels of management to tell a man where he stands and provide the psychological feedback, which is so necessary for the individual.

The sense of participation which is evident in the process of budget settlement is another great benefit. Here, in the budget process, is an individual employee being consulted about unit goals, and through them, organisational objectives. No longer is he regarded as a mere cog in a wheel but as a man sharing the goals of the organisation.

Performance appraisal through the devising of objective norms is another feature that flows from budgeting. Performance reports speak for themselves and their story has of course to be given its due and objective

prominence in evaluating a person, in addition to other norms such as the quality of operations, managerial capabilities and so on, which are not reflected in budgeting. But, since budgets contribute directly to organisational goals, it is quite clear that budgetary achievements should naturally play a very large part in individual evaluation.

There is also one advantage to both the management and the individuals, which is worth mentioning here. In the absence of budgeting, routine seems to get the better of our attention and the relative importance of things is lost in mounting paperwork. All lapses and faults get equal attention. Nobody seems concerned about the costs involved in merely setting right a host of daily irregularities, which must occur in any organisation and which would not upset organisational goals seriously. For illustration, let us consider the case of an advance proposal for which a branch manager in a bank has budgeted. Under pressure of budgeting, there would be a sense of urgency in seeing through the proposal in order to reach budgeted levels. In the absence of budgeting, one would not perhaps be wrong in supposing that really nice but endless questions would go on being raised about the proposal. All this may be done without any sense of priorities and this costs money. The effect of budgets is to relegate things to their proper place.

Flexibility

The question is sometimes asked: What is the use of budgets when unexpected events take place, as they often do, and upset all our calculations? The question is usually disposed of academically by asking a counter question: Are we better off for not budgeting? Decidedly not. However, the first question merits our understanding and what it really seems to mean is this: Is it worth while to go through the convulsions of budgeting and to spend large sums of money, when we know very well that the goals set up therein may turn out to be unworkable due

to the subsequent happening of irreversible occurrences which shatter many of our major assumptions? The answer to this is that we do not expect budgets to ward off events over which they have no influence, but we accept the happening of such events as a fact of life and do our best to take note of them in our subsequent activities. Budgets are not a modern substitute for good, old common sense or for ever-needed watchfulness. Disquieting evidence should be hunted for and when confronted with the fact of irreversible trends or of budget assumptions not verified by observation, we re-establish ourselves as best as we can. This process of re-establishing ourselves does not of course mean going through the budgetary procedure once again as this is costly and time-consuming and is itself subject to fresh upsets. It means a formal mental realignment throughout the organisation.

Applicability to Banks

We now come to a question of greater practical relevance to bankers : Can budgeting be adopted in banks? The answer is in the affirmative. There is no reason to suppose that in business or industry, the imponderables, making budgeting difficult, are less than in banking. A banker's stock-in-trade is deposits, advances, etc., and though there may be some difficulties in predicting trends in them, there seem to be no features in them that make budgeting impossible.

Conclusion

One of the benefits of budgetary control is the way it brings about total effort at all levels harnessed to the good of the organisation. Budgeting process can be compared to the magnetising of a piece of iron. The piece of iron can be thought of as made up of tiny bits of magnets. But only when it is placed in a magnetic field, do the pieces align themselves and act in a pointed way instead of acting against each other. The budgetary process turns

everybody's attention to the specific details of organisational goals in a pointed way.

Some essential attitudinal changes seem to be necessary for the budgetary process to lead to success; it should first be regarded that budgets are only a yardstick to enable orderly performance and objective appraisal to be done, not a pointed stick to goad people with.⁵ Budgeting should also be regarded as a way of thinking about problems, not a ritual of procedure.⁶

Budgets, which lay down the short-term goals of an organisation, do not set out on the impossible task of eliminating all defects but only seek to reduce them. It would not be utterly out of place to borrow a quotation from the domain of religion to underline the use of these goals: Swami Vivekananda said, "If a man with a goal makes ten mistakes, I am sure that a man without a goal makes ten thousand". Something like this might well be the first tenet of corporate religion too.

(**Shri K. Srinivasa Rao** is Staff Officer in the Reorganisation Department at the Bank's Central Office.)

5 James L. Pierce, *The Budget Comes of Age*, Harvard Business Review, May-June 1954.

6 William J. Vatter, *Operating Budgets*, op.cit., p. 59.

Current Topics

Import Policy for 1972-73

The Background

India's total imports showed a declining trend after the devaluation of the rupee in June 1966, the fall being rather sharp in 1968-69 and 1969-70. The trend was, however, reversed in 1970-71, when imports increased by 2.7 per cent mainly because of a substantial rise in the demand for raw materials, intermediate goods and equipment and partly because of a rise in international prices of metals and equipment. During April to December 1971, imports increased further, having recorded a rise of as much as 18 per cent over those in the corresponding period of 1970 mainly due to increases in imports of petroleum products, metals, raw cotton, edible oils and machinery and equipment.

As against this, the foreign aid disbursed has been slowly declining in the last few years. From Rs. 1,196 crores in 1967-68, it has come down to an estimated level of Rs. 778 crores in 1971-72. On the other hand, debt servicing has been developing into a major problem. In 1971-72, debt servicing is expected to amount to as much as 28 per cent of the country's exports and more than 55 per cent of the new commitments of aid. After making

allowance for debt servicing, the net flow of assistance into the country declined from Rs. 863 crores in 1967-68 to Rs. 341 crores in 1970-71. If food aid is excluded, the net inflow has fallen from Rs. 533 crores to Rs. 248 crores in 1970-71. The peak of debt servicing is expected to be reached in 1972-73 and 1973-74, when about 30 per cent of the country's annual export earnings will have to be pre-empted for the purpose.

Export earnings have not reached the Fourth Plan targeted growth rate of 7 per cent per annum during the first three years of the Plan. In fact, according to the calculations of the Ministry of Foreign Trade, earnings from industrial exports will have to rise by 15-20 per cent annually to attain this target. This in turn calls for stepping up of imports.

The import policy for 1972-73 announced by the Union Government on the 3rd April is continuation of the policy in force in the last two years. Liberal imports are allowed to meet the requirements of priority industries, export-oriented industries, small scale industries and industries located in backward areas. The factors which made these liberalisations feasible are the country's fairly high level of foreign exchange reserves and the drawing power with the I.M.F. At the end of March 1972, after the latest allocation of SDRs, the reserves stood at Rs. 849 crores as against Rs. 732 crores at the end of March 1971. Expectations of fairly substantial debt re-scheduling at the next Aid-India Consortium Meeting could also have contributed to the continuation of the liberal, though highly selective, import policy.

MAIN FEATURES OF THE POLICY

Need-based Approach

The 54 industries, which have been recently allowed to double their production, will be permitted additional imports of raw materials against a special allocation of foreign exchange set apart for the purpose. Import re-

quirements of the 59 priority industries will be met as before, subject to the availability of foreign exchange. In the case of selected priority industries of special importance, import licences for raw materials and components will be granted on merits for higher values against an additional foreign exchange allocation provided for this purpose.

In the case of priority industries, licences for raw materials and components for a value higher than past consumption will be issued on merits, if the industrial unit concerned earns net foreign exchange by exporting its products and the additional export earnings are at least 50 per cent higher than the value for which additional raw materials may be allowed for import. Selected priority industries are eligible for larger imports if they can prove that the increased output will directly save on present imports and the saving in foreign exchange is at least 50 per cent higher than the value of additional raw materials that may be allowed for import.

Export Promotion

The policy seeks to give incentives to exporters by providing greater facilities for industries in the priority and non-priority lists.

Industries in the priority sector exporting 10 per cent and more of their production will be eligible to preferred sources of supply and facilities for expansion of export production. The industries, which export 25 per cent and more of their output, will receive substantially greater preference.

Units in the non-priority sector with similar export performance will be treated as priority units and will be given the same facilities in respect of sources of supply and expansion of production.

Units in the twelve industries included in the priority list such as bicycles and components, certain types of

diesel engines, automobile ancillaries and drugs and pharmaceuticals will be liable to a cut in import licences, withdrawal of facilities of preferred sources of supply and expansion of production capacity, if they fail to export a minimum of 5 per cent of their production. This feature is a continuation of the last year's policy. It may be mentioned that out of the 342 units in this category, only 88 (26 per cent) were able to meet the export obligation of 5 per cent during the last year.

Registered Exporters

The principle of need-based import replenishment from the most preferred sources of supply for registered exporters will continue. As in the past, they will be permitted to transfer their import replenishment licences in favour of the Minerals and Metals Trading Corporation (MMTC) and the State Trading Corporation (STC). The procedure for nominations has been simplified.

Export Houses and Small Scale Industries

The scheme for extending facilities to export houses has been liberalised further. The exports of tobacco products will also be taken into account in ascertaining the eligibility for an export house and for determining the value of its initial import licence. While considering import entitlement of export houses, their indirect exports and their exports of products of small scale industries will be considered. This will thus give a boost to exports in general and to those of small units in particular.

Under the new policy, preferential treatment will be accorded in the matter of import of machinery and raw materials to small scale units set up by qualified engineers and ex-service personnel. Special facilities are offered to Indian nationals returning from abroad to set up small scale industries in the country. They will be allowed to import machinery up to the value of Rs. 5 lakhs and raw materials worth Rs. 1 lakh out of their funds from abroad without prior clearance. Small scale units in the backward

areas are also given preferential treatment in respect of import of machinery and raw materials.

Closed Units

Special facilities will be given to the engineering units, which have closed down for want of raw materials, particularly those located in West Bengal, to re-start their manufacturing activities. Advance allocation of imported raw materials will be made to such units.

Import Substitution

Though the import policy has been liberal in respect of priority industries, export industries and small scale industries, it has not overlooked the importance of import substitution so vital for self-reliance in the context of the decline in the flow of aid and the shortfall in the targeted growth of exports. In selecting items for import substitution, domestic availability and essentiality of the items have been taken into account. Imports of as many as 160 items, which were allowed to actual users so far, have been banned in 1972-73, in addition to the 170 items banned last year. Imports of 87 items have been restricted. The list of banned items includes a wide range of ball bearings, tapered roller bearings, 21 dyes, 26 chemicals, 12 types of machine tools, marine diesel engines up to 400 h.p., central chilling units, certain raw materials for electric fans, cotton yarn of 100s and above, electro-cardiograph paper roll, lead glass, bulb glass tubing, synthetic tanning agents, tyres and tubes of specified ranges, caps for electric lamps, brass wire of certain size, antimonial lead for storage batteries, steel roller chains and copper wire.

The restricted import items are stainless steel pipes and tubes for manufacture of air-conditioning and refrigeration equipment, bimetal strips, alloy pen points, needle bushes and bearings, 14 dyes intermediates, lead glass tubing for electric lamps, cod oil for industrial leather, 24 chemicals, carbon steels, die blocks, mild steel hot rolled skelp and strips, cold rolled medium and high carbon strips

and ball bearing steel billets and bars. Quotas of established importers have been reduced in respect of 29 items including a wide range of spares, drugs and medicines, fur, skins of wild animals and reptiles, motor vehicle parts, refills for fire extinguishers, film studio equipment, spare parts of printing machinery, stereo flongs, medical and surgical instruments and garage tools.

Canalisation of Imports

In pursuance of the policy to bring an increasing proportion of foreign trade of the country in the public sector, 56 items have been added to the canalised list, which already covered 112 items. The newly canalised items include copper scrap, certain iron and steel items, some categories of ferro alloys, a large number of chemicals including caustic soda and some petroleum products including kerosene. The canalisation of these additional items will raise the public sector imports by nearly Rs. 100 crores annually. Thus, the public sector agencies with the total canalised list of 168 items will account for 75 per cent of total imports as against 70 per cent in the last year.

‘Steel Bank’ and the I.R.M.A.C.

A new feature of the policy is the setting up of a ‘steel bank’ by the Hindustan Steel Ltd., which will make available steel from its ready stocks to actual users. Actual users, who are exporters, will be given preference in allotment of imported steel. The State Trading Corporation also will expand the service of its Industrial Raw Materials Assistance Centre for supplying raw materials off the shelf to actual users and registered exporters.

Facilities for Development and Research Activities

Import licences for raw materials and spare parts will be granted to the special research units recognised by the Department of Industrial Development.

Import of Scientific Instruments, Apparatus and Appliances

Technical and research institutions and Government research and analytical laboratories will be allowed to

import without licences scientific instruments, apparatus and appliances of a value up to Rs. 2,000 at any one time. If these institutions so desire, they can also avail of an alternative facility of importing these items, in one lot, once in the course of a year, without obtaining an import licence, if the value thereof does not exceed Rs. 8,250.

Import of Technical Books

Educational, medical and research institutions and universities will be allowed to import without licences technical books up to Rs. 10,000 in value in a year.

Open General Licence

The import of certain essential raw materials required by industry will continue to be on OGL. A list of these items includes wattle extract, wattle bark, bark for tanning, pickled hides, skins, pelts, splits and parts thereof, hides and skins — raw or salted — quebracho extract, chestnut extract and modified Eucalyptus extract (Myrtan).

Conclusion

Considering the fact that the option open to the framers of the import policy for the current year were limited and the choices hard to make, the Government has made the best of a difficult situation. On the one hand, industrial production has been showing a decelerating trend with growth rate in the first eleven months of 1971 reaching just 2.7 per cent as against 4.7 per cent in the corresponding period of 1970. On the other hand, there has been a slowdown in the flow of foreign aid in general and the stoppage of U.S. aid in particular. Exports too have not been picking up according to the targets envisaged. Against this background, the import policy for 1972-73 is neither unduly restrictive as was generally apprehended, nor unduly liberal as was pleaded for by some circles. What has been attempted is a reduction in the overall import bill without sacrificing investment, industrial production, exports or employment. It is hoped that the policy will give the much needed fillip to industrial production and exports.

Legal Decisions

On Banking

Enhanced Rate of Interest— When Penal or Excessive

Venkataramanaswamy Permanant Bhadar Limited

vs.

Fatima Bi and Others

AIR 1971 Mysore 250

Contributed by N. K. Randeria

In this appeal, the only question for consideration was whether the enhanced rate of interest at 9 per cent payable on default was penal or excessive. The facts were that under a Deed of Mortgage, the mortgagor had agreed to pay interest at $6\frac{1}{2}$ per cent per annum, and on default in payment of the prescribed instalments, to pay interest at the rate of 9 per cent per annum. The mortgagor had

also agreed to pay interest at the penal rate of 12 per cent per annum on failure to pay the recurring deposit.

Dealing with the contention that the default clause in the Mortgage Deed could not be construed as penal in nature, the High Court referred to the explanation to Section 74 of the Indian Contract Act and observed that for determining whether the particular covenant for payment of enhanced rate of interest was excessive or not, circumstances of each case had to be taken into consideration. The enhanced interest might be allowed as a reasonable compensation towards the loss on delayed payment. If, however, the enhanced interest was in the nature of *terrorem* for the performance of the contract, it would be regarded as a penalty. In the instant case, the ordinary rate of interest was $6\frac{1}{2}$ per cent. It was perhaps to compensate for the delay of recovery and reinvestment of the amount that it was provided that on default interest at the rate of 9 per cent would be recovered. Further, there was a stipulation to charge penal interest at the rate of 12 per cent. The High Court, therefore, was of the opinion that 9 per cent interest on default could not be said to be penal. The High Court held that in absence of any specific provision to the contrary, the parties must be deemed to have intended that the enhanced rate would be chargeable from the date of default and not from the date of the deed. The High Court declared that if the enhanced rate of interest was to be charged from the date of the mortgage and not with effect from the date of the default, it would be a circumstance to hold that it was in the nature of a penalty.

In the result, the mortgagee was held entitled to the payment of interest at the rate of 9 per cent from the date of default.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 26-5-1972	A Month Ago 28-4-1972	A Year Ago 28-5-1971
State Bank of India			
Aggregate Deposits :	1,659.2	1,647.2	1,334.7
Demand (Exclusive of inter-bank transactions)	773.1	775.2	618.5
Time (-do-)	886.1	872.0	716.2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,262.2	1,114.3	1,081.6
Investments in Government Securities	415.0	455.1	344.8
Subsidiary Banks			
Aggregate Deposits :	440.9	424.7	373.5
Demand (Exclusive of inter-bank transactions)	189.9	175.2	158.5
Time (-do-)	251.0	249.5	215.0
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	332.7	327.0	294.4
Investments in Government Securities	92.6	90.8	71.8
All Scheduled Commercial Banks			
Aggregate Deposits :	7,319.9	7,207.0	6,108.7
Demand (Exclusive of inter-bank transactions)	3,176.7	3,128.2	2,688.3
Time (-do-)	4,143.2	4,078.8	3,420.4
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,331.4	5,189.2	4,678.0
Investments in Government Securities	1,674.3	1,711.8	1,374.0

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	March 1972	Decem- ber 1971	March 1971
State Bank of India			
No. of Offices ...	2,532	2,477	2,189
Finance to Small Scale*			
Industries :			
No of Units Assisted	39,299	38,489	35,118
Limits Sanctioned ...	271.76	262.12	243.40
Outstandings ...	184.24	176.88	157.87
Direct Finance for Agriculture :			
No. of Accounts ...	1,85,095	1,93,852	2,12,247
Limits Sanctioned ...	64.57	68.91	71.33
Outstandings ...	44.31	47.70	50.26
Indirect Finance for Agriculture :			
No. of Accounts ...	906	920	1,029
Limits Sanctioned ...	94.51	96.78	164.76
Outstandings ...	34.63	41.07	62.09
Export Finance :			
Outstandings ...	118.13	108.05	97.85
Subsidiary Banks			
No. of Offices ...	1,357	1,304	1,192
Finance to Small Scale*			
Industries :			
No. of Units Assisted	20,310	19,650	17,769
Limits Sanctioned ...	96.57	90.35	88.47
Outstandings ...	56.96	50.19	46.96
Direct Finance for Agriculture :			
No. of Accounts ...	63,066	65,414	66,424
Limits Sanctioned ...	31.13	31.97	33.77
Outstandings ...	19.40	21.15	21.75
Indirect Finance for Agriculture :			
No. of Accounts ...	861	801	653
Limits Sanctioned ...	16.97	16.62	25.04
Outstandings ...	7.19	6.97	8.87
Export Finance :			
Outstandings ...	15.11	14.03	12.62

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 26-5-1972	A Month Ago 28-4-1972	A Year Ago 28-5-1971
	(Amounts in rupees crores)		
1. Money Supply with the Public ...	8,388	8,234	7,353
(a) Currency with the public ...	5,015	4,913	4,539
(b) Deposit money with the public	3,373	3,321	2,814
	April 1972	March 1972	April 1971
2. Foreign Exchange Reserves	854.6	848.7	773.7
	(Per cent per annum)		
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate	8½	8½	8½
(c) State Bank of India Hundi Rate	8¾-10½	8¾-10½	9½
(d) Call Money Rate (Bombay) ...	5.0	8.1	8.7
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

		November 1971	October 1971	November 1970
4. Index Number of Industrial Production (1960=100)				
General Index ...		191.3	190.1	183.8
(Adjusted)				
	Week ended	Week ended	Week ended	
	27-5-1972	29-4-972	29-5-1971	
5. Index Numbers of Wholesale Prices (1961-62=100)				
All Commodities ...		194.2	192.8	182.8
Food Articles ...		221.7	217.8	204.6
Liquor and Tobacco		216.4	217.4	180.8
Fuel, Power, Light and Lubricants ...		178.1	177.7	162.3
Industrial Raw Materials ...		174.3	174.6	188.5
Chemicals ...		200.1	198.8	194.0
Machinery and Transport Equipment ...		165.8	165.5	154.8
Manufactures ...		172.8	173.3	161.6
	March 1972	February 1972	March 1971	
6. Consumer Price Index Number for Industrial Workers — All-India (1960=100)		194	193	184
7. Foreign Trade		February 1972	January 1972	February 1971
		(Rupees in crores)		
Total imports ...		152.1	177.8	134.3
Total Exports (including re-exports) ...		134.9	143.4	102.4

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Salary Income and Tax Laws—Part I

S. R. Darekar

The scope of this article is confined to salary income and certain allied topics. It does not deal with the implications of tax laws on the various heads of income.

The provisions of the Income-tax Act relating to salary income can be viewed from two different points of view, one the obligations of the employee who receives taxable salary income, and the other, obligations of the employer concerning his responsibility towards deduction of tax at source.

Employee's Obligations

All income for the purposes of income-tax is classified under the following heads :

1. Salaries
2. Interest on securities
3. Income from house property

4. Profits and gains of business or profession
5. Capital gains
6. Income from other sources (i.e., residuary income which does not fall under any of the above heads).

As stated earlier, I propose to confine myself to the first part indicating the implications of income-tax and wealth-tax laws on the salary income.

What is Salary ?

(1) No payment can be called 'salary' unless a contractual relationship of an employer and the employee exists between the payer and the payee.

(2) Any benefits or profits received from persons other than the employer are not salary but 'income from other sources'.

(3) Payments like gratuities (except exempted portion), bonuses and other voluntary payments made by the employer are salary, but personal gifts are not salary, as such payments are treated as casual income and hence exempt.

(4) Any payments made by the employer to the employee after cessation of his employment are also 'salary'.

(5) Payments made in commutation of salary or pension (except certain exemptions) are also 'salary'.

It may be noted that income from 'salaries' is chargeable to tax on due basis and it accrues at the place where service is rendered.

Which Salary Income is Chargeable ?

(i) Any salary due from an employer or a former employer to an assessee (employee) in the previous year, whether paid or not.

(ii) Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him.

(iii) Any arrears of salaries paid or allowed to him in previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier year.

Salary Paid in Arrears or in Advance

The Income-tax Officer is empowered to grant relief under Section 89(1) of the Income-tax Act to the assessee if, as a result of any arrears of salary, his income becomes assessable at a rate higher than that at which it would otherwise have been assessed, provided, of course, he makes an application to the Income-tax Officer concerned for appropriate relief.

Components of Salary

The word 'salary' includes not only the payments ordinarily known as salary but also the following items :

1. wages;
2. any annuity or pension;
3. any gratuity (except the exempted gratuity);
4. any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages;
5. any advance of salary;
6. the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised Provident Fund, to the extent it is not exempt; and
7. the aggregate of all sums comprised in the transferred balance at the time of recognising a Provident Fund as described in Sub-Rule (2) of Rule 11 of Part A of the Fourth Schedule.

Gratuities

There are three types of gratuities viz., (1) Death-cum-Retirement Gratuity, (2) Retiring Gratuity and (3) any other gratuity. Under Section 10(10) of the Income-tax Act 1961, the gratuity (other than Death-cum-Retirement

Gratuity or Retiring Gratuity) received by an employee from his employer is exempt from tax and is not to be included in his total income to the following extent:

- (i) The amount not exceeding one-half month's salary for each year of the completed service or
- (ii) 15 months' salary, or
- (iii) Rs. 24,000, whichever is the least.

A month's salary is to be calculated on the basis of average salary of the employee for three years immediately preceding the year in which the gratuity is paid. For this purpose, salary should be taken to mean basic salary excluding all other allowances, perquisites, bonus, etc. The words "three years" refer to three calendar years immediately preceding the calendar year in which the gratuity is paid.

Perquisites

Definition : Perquisites include (i) value of rent-free accommodation provided to the assessee (employee) by his employer, (ii) value of any concession in the matter of rent in respect of any accommodation provided to the assessee by his employer and (iii) value of any benefit or amenity granted or provided free of cost or at concessional rate to the following categories of employees :

- (a) by a company to an employee, who is a director thereof;
- (b) by a company to an employee, who has a substantial interest in the company, i.e., an employee who is the beneficial owner of at least 20 per cent of the ordinary shares;
- (c) by any employer to an employee, whose income under the head 'salaries' exclusive of all non-monetary benefits or amenities exceeds Rs. 18,000;
- (d) any sum paid by the employer in respect of any obligation, which, but for such payment, would have been payable by the assessee, e.g., the sum

paid by the employer towards education of employee's children, the sums spent on gas, electric energy, water, etc., etc., and

- (e) any sum payable by the employer, otherwise than through a recognised Provident Fund or any approved superannuation fund, to effect an insurance on the life of an employee or to effect a contract for an annuity.

Under the Income-tax Act 1961, the value of perquisites received by a salaried employee from his employer is chargeable to tax in his hands as salary income. The value of such perquisites is determined in accordance with Rule 3 of the Income-tax Rules 1962.

(1) Rent Free Quarters

The value of rent free residential accommodation provided to the employee by his employer is ordinarily estimated at a sum equal to 10 per cent or 12.5 per cent of his 'salary' according to accommodation being unfurnished or furnished. However, where the fair rent for unfurnished and furnished accommodation exceeds 20 per cent and 25 per cent respectively of the salary, the excess over 20 per cent and 25 per cent is to be added to 10 per cent and 12.5 per cent as the case may be, to determine the value of this perquisite.

Under Rule 3(a) (i) of the Income-tax Rules 1962, the Income-tax Officer is empowered to increase the percentage from 20 (for unfurnished) and 25 (for furnished) to any reasonable percentage if, in his opinion, the nature of accommodation in a particular area justifies the increase. Accordingly, for cities like Bombay, Calcutta, Madras and Delhi, as per instructions issued by the Central Board of Direct Taxes, only the excess over 30 per cent (for unfurnished) and $37\frac{1}{2}$ per cent (for furnished) is taxed as a taxable perquisite, besides usual 10 per cent (for unfurnished) and $12\frac{1}{2}$ per cent (for furnished).

Fair Rental Value : in the case of unfurnished

accommodation, the fair rental value would be the rent which a similar accommodation would realise in the same locality or municipal valuation in respect of the accommodation, whichever is higher. Whereas in the case of furnished accommodation, the fair rental value of the accommodation would be as if it were not furnished plus the fair rent for the furniture calculated at 10 per cent per annum on the original cost of the furniture or if the furniture is hired the actual hire charges payable thereon.

It may be noted that where the fair rental value of accommodation is less than 10 per cent (if unfurnished) and $12\frac{1}{2}$ per cent (if furnished) of the employee's salary, the value of perquisite to be taken is the fair rental value.

(2) Accommodation at Concessional Rate

The value of this perquisite is determined as per Rule 3(b) of Income-tax Rules 1962, i.e., it is to be calculated in the manner explained above and therefrom the rent actually paid by the employee is to be deducted.

For the purpose of calculating the value of accommodation provided free of rent or at a concessional rent, 'salary' means pay, allowance, bonus or commission payable monthly or otherwise, but does not include (i) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned; (ii) employer's contribution to Provident Fund account of the employee; and (iii) allowances which are exempt from payment of tax.

(3) Motor Car Partly for Personal and Partly for Business Purposes

(a) Where a motor car is owned or hired by the employee and all the expenses of maintenance and running are met or reimbursed to the assessee by the employer, the value of the perquisite is to be considered as Rs. 150 per month if the horse power rating of the car does not exceed

16 or the cubic capacity of the engine does not exceed 1.88 litres, but if it is otherwise, Rs. 250 per month.

(b) Where the motor car is owned or hired by the employer but the expenses of maintenance and running for his private or personal purposes are met by the assessee out of his pocket, the value of the perquisite is to be considered as Rs. 60 per month if the horse power rating of the car does not exceed 16 or the cubic capacity of the engine does not exceed 1.88 litres, but if it is otherwise, Rs. 100 per month.

House Rent Allowance

An assessee can claim exemption of house rent allowance under Section 10(13-A) of the Income-tax Act 1961 to the extent laid down in Rule 2-A of the Income-tax Rules 1962.

Section 10(13-A) : Any special allowance specifically granted to an assessee by his employer to meet expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee to such extent as may be prescribed having regard to the area or place in which such accommodation is situated and other relevant considerations.

Rule 2-A : The amount which is not to be included in the total income of an assessee in respect of the special allowance referred to in clause (13-A) of Section 10 shall be :

(a) the actual amount of such allowance received by the assessee in respect of the relevant period; or

(b) the amount by which the expenditure actually incurred by the assessee in payment of rent in respect of residential accommodation occupied by him exceeds one-tenth of the amount of salary due to the assessee in respect of the relevant period; or

(c) an amount equal to (i) where such residential accommodation is situated at Ahmedabad, Bombay, Bangalore, Calcutta, Delhi, Hyderabad, Kanpur, Madras or

Poona, one-fifth of the amount of salary due to the assessee in respect of the relevant period, and (ii) where such residential accommodation is situated at any other place, one-tenth of the amount of salary due to the assessee in respect of the relevant period; or

(d) a sum calculated at the rate of Rs. 300 per month in respect of the relevant period, whichever is the least.

For the purpose of this Rule, salary includes dearness allowance if the terms of employment so provide but excludes all other allowances and perquisites.

An employee becomes entitled to claim the above allowance when both the following conditions are fulfilled: (i) the allowance from the employer must be specific to meet the expenditure on payment of rent, and (ii) the actual payment of rent by the employee should exceed 10 per cent of his salary.

Conveyance and Travelling Allowances

Under Section 10(14), any special allowance or benefit, not being in the nature of entertainment allowance or other perquisites, is exempt from tax if specifically granted to meet expenses wholly, necessarily and exclusively incurred on the performance of the duties of an office to the extent to which such expenses are incurred for that purpose. The examples of such special allowances are (1) travelling allowance, (2) conveyance allowance, (3) motor car allowance, etc. In order to become entitled to claim this exemption, two conditions must be fulfilled: (a) the allowance must be specifically granted to the employee to meet the expenditure relating to his duties and (b) the exemption is extended only to the extent to which such expenditure is actually incurred.

As per instructions issued by the Central Board of Direct Taxes (Public Circular No. 14-P of 1968), in the case of salaried employees, who are in receipt of a conveyance allowance, the employer should exclude from the salary of the employee that part of the conveyance allowance

which is equal to the amount that was treated as exempt under Section 10(14) by the Income-tax Officer in the last completed assessment of the employee. If in any particular case the employee had spent during the current year a larger portion of his conveyance allowance than had been spent or allowed in the preceding year, a further deduction may be claimed by him at the time of the regular assessment.

Travel Concession in India

Under Section 10(5), the value of any travel concession or assistance received by or due to any person being a citizen of India, from his employer for himself, his spouse and children in connection with his proceeding on leave or on retirement or after the termination of his service to any place in India is exempt from tax.

The exemption, which was available with regard to travel to 'Home District', has been extended with effect from April 1, 1970 to travel to any place in India provided the amount exempt shall in no case exceed the amount, which would have been received by the individual in connection with his proceeding to his 'Home District' in India. This exemption is now made available to the individual, who travels even after retirement or termination of service. The word "spouse" has also been substituted for wife to make it clear that the concession applies to women employees also.

Encashment of Leave

The monetary payment made to the employee on account of 'Encashment of Leave' is considered as taxable income under the head 'salary' as it is a receipt by way of addition to the remuneration of the employee. It may be noted that any receipts, which are of casual and non-recurring nature, are not included while computing the total income unless they are (i) capital gains, or (ii)

receipts arising from business or the exercise of a profession or occupation, or (iii) receipts by way of addition to the remuneration of an employee.

(To be concluded)

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Rubber Plantation Industry

Although commercial planting of rubber in the country began only in 1902, India today ranks as the sixth biggest rubber producing country in the world both in terms of acreage and output. In 1970-71, total area under rubber was 2.03 lakh hectares and production was of the order of 0.92 lakh tonnes. Rubber plantations are largely concentrated in South India and mostly in the State of Kerala. Kerala accounts for 92 per cent of the area and a little over 90 per cent of rubber produced in the country. Tamil Nadu and Mysore are the other rubber producing States. Experimental plantations are located in Assam, Maharashtra, Andhra Pradesh, Goa and Tripura. With a total number of nearly one lakh plantation units, the industry provides employment to about two lakh workers.

Progress Since Independence

With the attainment of Independence, the importance of natural rubber in the economy was recognised and the Rubber Board was constituted as a statutory body under the Rubber Act, 1947, with the main object of encouraging

and developing the rubber plantation industry. The efforts of the Board in modernising and expanding the industry have borne fruit inasmuch as the area under rubber increased from 69,001 hectares in 1950-51 to 2,03,098 hectares in 1970-71 and production of rubber rose from 15,830 tonnes to 92,171 tonnes during the period.

Rising Trend of Production

The production of rubber has been showing a rising trend year after year. The rubber plantation industry recorded notable progress during the Third Plan period. As against the target of 45,000 tonnes, the industry produced 50,530 tonnes of rubber in 1965-66. It is noteworthy that over the decade ended 1970-71, production registered more than a three-fold rise from 25,697 tonnes to 92,171 tonnes. The trend in production is indicated in Table No. 1 below :

TABLE No. 1
Natural Rubber: Area and Production

Year					Area in hectares					Production in metric tonnes
1950-51	...	...	...	...	69,001	...	...	...	...	15,830
1955-56	...	...	...	...	83,867	...	...	...	...	23,730
1960-61	...	...	...	...	1,29,905	...	...	...	...	25,697
1965-66	...	...	...	...	1,64,713	...	...	...	...	50,530
1968-69	...	...	...	...	1,87,514	...	...	...	...	71,054
1969-70	...	...	...	...	1,96,703	...	...	...	...	81,953
1970-71	...	...	...	...	2,03,098	...	...	...	...	92,171

Imports

Until three decades ago, India was mainly exporting its natural rubber. Thereafter, with the rapid expansion of rubber consuming industry, indigenous production fell short

of demand and this necessitated imports. However, production of natural rubber in the country reached an all time high of 92,171 tonnes in 1970-71, resulting in a slump in the market. In view of the record internal production and accumulation of stocks with growers, no licence was issued in 1970-71 for import of natural rubber. The trend of imports of natural rubber can be seen from Table No. 2 below :

TABLE No. 2
Natural Rubber : Imports

								(In metric tonnes)
Year								Imports
1955-56	...	...	...	...	...	...	...	4,428
1960-61	...	...	...	...	...	...	...	23,125
1965-66	...	...	...	...	...	...	...	16,357
1968-69	...	...	...	...	...	...	...	8,548
1969-70	...	...	...	...	...	...	...	17,821
1970-71	...	...	...	...	...	...	...	2,469

Estates vs. Small Holdings

The rubber plantation industry consists of two sectors, viz., the estates of above 50 acres (20.23 hectares) and small holdings of 50 acres and less. Productivity of the estate sector is considerably higher than that of the small holdings sector mainly due to better management, organisation and application of scientific techniques. Thus, while the yield per hectare of the estate sector improved substantially from 494 kgs. in 1960-61 to 854 kgs. in 1969-70, that of small holdings increased only by 208 kgs. per hectare to 500 kgs. during the period.

The number of small holdings has been increasing year after year. Their share in the total area under rubber rose from 32 per cent in 1950-51 to 67 per cent in 1970-71. Between 1960-61 and 1970-71, the area under estates rose

by 24.6 per cent to 66,673 hectares and that under small holdings by 78.6 per cent to 1,36,425 hectares.

Small growers suffer from certain inherent disabilities. They are unable to hold the stock of rubber even for a short period and as such are compelled to resort to distress sale. Natural rubber being a semi-processed raw material, certain equipment and facilities are required to improve its quality. The most important of these is a smoke house, where rubber sheets are dried and smoked. Majority of the small growers do not have smoke houses of their own and even where they have, most of them make use of kitchen fire to smoke and dry their sheets, which results in the production of low quality sheets.

Economics of Production

Gestation Period : Rubber plantations have long gestation period for production. Consequently, larger investments and longer period of waiting are needed than for other crops. Rubber has an immaturity phase of about 7 years. Inclusive of the first seven unproductive years, the rubber tree has a life span of 32 years. Proper care and maintenance of the young plants are essential and the expenses incurred do not yield any return until the commencement of tapping. During the first 3 years of tapping, profits may not accrue as additional expenses have to be incurred on account of tapping, processing and transport. Profits will accrue thereafter for about 20-25 years at the end of which the trees will lose their economic utility.

Development Cost : The cost of developing a plantation may range from Rs. 3,000 to Rs. 4,000 per acre excluding the value of land, building, roads and machinery. Depending on location, the value of land may vary from Rs. 2,000 to Rs. 5,000 per acre. If the land is situated within city or

municipal limits the value may well exceed Rs. 5,000 per acre. The investment on account of construction of buildings, roads, purchase of vehicles and machinery may amount to Rs. 1,500 per acre. In all, the investment required for raising a modern plantation may be normally about Rs. 10,000 per acre. However, this figure gives only a broad indication as to the dimension of the investment required. There may be instances where the cost of developing a plantation will be lower or higher depending on various factors.

Expenses after Commencement of Tapping : Once the plantation passes the gestation period, additional expenses have to be incurred on account of tapping rubber trees for latex, processing, packing and transport. Factory and smoke house are required for processing the latex into a saleable form. The total expenses incurred after commencement of tapping may be around Rs. 1,200 per acre per annum.

Return on Investment : Yield per unit area is the important factor in deciding the profitability of a plantation. In the fixation of statutory price, an average rate of 16 per cent return is generally assumed by the Tariff Commission. Therefore, depending on the productivity of individual holdings, the profits are likely to be above or below this level. By and large, return is likely to be better for older plantations, as they would have written off, over the years, a major portion of the developmental expenses. As budded varieties of rubber yield two to three times more than that of ordinary varieties, profitability of the plantations with the former variety would be higher.

Cost of Re-planting : The re-planting costs have nearly doubled from Rs. 5,466 per hectare in 1960 to Rs. 10,000 per hectare in 1970. The cost of replacement on the basis of expected yield on replanted areas is indicated in Table No. 3.

TABLE No. 3
Cost of Re-planting

	Tariff Commission		U.P.A.S.I. Estimate*
	1960	1967	1970
1. Net replantation cost per hectare (Rs.)	5,466	5,200	10,000
2. Average yield per hectare on which replacement is calculated (kgs.)	523	895	900
3. Replacement cost on 100 kgs. recommended (Rs.)	35.20	23.24	44.44@

* United Planters Association of Southern India (UPASI)

@ As the replantation cost, viz., Rs. 10,000, has to be recovered in 25 years (the normal period of useful life of a rubber tree), the amount to be recovered in a year will be $10,000 \div 25 = \text{Rs. } 400$ per hectare on the assumed yield of 900 kgs. Hence the replacement

cost per 100 kgs. would be $\frac{400}{900} \times \frac{100}{1} = \text{Rs. } 44.44$.

It can be seen from the following Table that the current statutory price (Rs. 520 per 100 kgs.) has built-in provision for meeting the cost of re-planting.

TABLE No. 4
Natural Rubber : Statutory Price

(Rs. per 100 kgs.)						
Cost of production	...	...	...	...	...	325.00
Provision for contingencies	...	...	...	...	...	16.00
Provision for re-plantation (inclusive of depreciation)	...	...	...	...	...	44.00
Grade differential	...	...	...	...	...	7.50
Total cost	...	...	...	...	...	392.50
Gross return of 16 per cent on capital employed (Rs. 800 per 100 kgs.)	...	...	...	...	...	128.00
Statutory price	...	...	...	...	...	520.00

Profitability

According to a study of the working results of 10 rubber plantation companies made by the Economic Times, the industry showed commendable performance during 1969-70.

TABLE No. 5
Profitability Ratios

		(Percentages)	
		1968-69	1969-70
1. Gross profits to sales ...	...	23.5 (11.6)	33.1 (12.2)
2. Gross profits to total capital employed ...		13.3 (9.4)	19.4 (10.4)
3. Net profits to net worth ...	...	9.0 (9.3)	10.9 (11.7)

(Figures in brackets relate to "all industries.")

Gross profits as percentage of sales rose from 23.5 in 1968-69 to 33.1 in 1969-70 and as percentage of total capital employed from 13.3 to 19.4. Net profits as percentage of net worth also rose from 9.0 to 10.9. The abolition of the ceiling on rubber prices (in late 1968) helped to improve the performance of these companies. Studies on the profitability of the industry for the subsequent years have not been published so far. However, judged by the price trends of natural rubber for the last two years, it is likely that the industry has suffered a temporary set-back.

Glut in Rubber

During the last two years, there has been a general fall in the market price of natural rubber. This is attributed to the low offtake by the consuming units. The tyre industry accounts for about 60 per cent of the offtake of the total rubber produced in the country. Consequently, a fall

in the level of activity of the tyre manufacturing units results in a glut in rubber. Despite expansion in capacity, the operations of the tyre producers were seriously interrupted in the past few years due to labour unrest and power shortage. Besides, increasing use of plastics in the manufacture of footwear and cables and slackness in the demand for cycle tyres contributed to the glut. It is estimated that currently there is a surplus of 15,000 tonnes of natural rubber in the market.

The price of natural rubber was Rs. 515 per 100 kgs. at the Kottayam market when the ceiling on rubber prices was lifted on the 16th November 1968. The prices gradually improved and touched Rs. 607 by the end of March 1969. Thereafter, prices declined steadily and stood at Rs. 462 by September 1970, when the Government notified minimum prices for rubber. After the notification, complaints were received from rubber growers that they are finding it difficult to sell their rubber at notified prices. The Union Government, therefore, directed the State Trading Corporation of India (S.T.C.) to enter the market and lift the rubber at notified prices.

Role of S.T.C.

With a view to mitigating the impact of the glut on the growers, the State Trading Corporation of India entered the market in a big way and started purchasing rubber on the 26th October 1970 through co-operative societies dealing in rubber. Though the Rubber Board had emphasised the need to build a buffer stock of 10,000 tonnes, the S.T.C. could not keep that much of quantity in stock. Till the middle of March 1972, the S.T.C. purchased 18,400 tonnes and sold 15,570 tonnes of rubber. The purchase operations of the State Trading Corporation have been modest, belying the expectations of some sections of the growers. In October 1971, the Union Government sanctioned the Kerala Government, which has considerable stake in the industry, a loan of Rs. 2.5 crores for purchase of rubber from small growers. The State Government's purchase ope-

rations will be in addition to the price support operations conducted by the S.T.C. The State Government has so far spent Rs. 40 lakhs for purchasing about 800 tonnes of rubber. Its operations are likely to be intensified during the current year.

Need for Buffer Stock

The Rubber Board has been successful in persuading the tyre manufacturers to keep in stock about 3½ months' consumption of natural rubber. The non-tyre manufacturers were persuaded to keep 2½ months' consumption as stock. In spite of all these measures, the market price has failed to rise above the floor price. The S.T.C. being not an end consumer but only another trader, its purchases from a small section of growers had little effect on the market. Moreover, what S.T.C. did was to sell immediately to the manufacturers, who in turn curtailed their purchases from the market. Thus, there was no improvement in the market situation. In the circumstances, it appears that the position can be improved only by removing the surplus from the market and making it unavailable to manufacturers, for the time being, by building up a buffer stock.

Consumption Pattern : Change

The present imbalance between supply and demand of natural rubber can be attributed partly to the inroads made by synthetics in the consumption pattern in recent years. Even though the consumption of both natural and synthetic rubber has been rising over the years, the rate of growth in the consumption of the latter has been comparatively higher. Between 1960-61 and 1970-71, consumption of synthetic rubber registered more than a four-fold rise from 7,397 tonnes to 33,160 tonnes. On the other hand, the consumption of natural rubber could not record even a two-fold rise during the same period. The trend in consumption of both natural and synthetic rubber is given in Table No. 6.

TABLE No. 6
Natural and Synthetic Rubber : Consumption

Year	Consumption in metric tonnes			Percentage variation over the previous year		
	Natural rubber	Synthetic rubber	Total	Natural rubber	Synthetic rubber	Total
1955-56	28,445	461	28,906	—	—	—
1960-61	48,148	7,397	55,545	+18.9	+ 49.0	+22.2
1965-66	63,765	21,553	85,318	+ 4.4	+ 41.0	+11.8
1968-69	86,615	27,238	1,13,853	+16.2	+ 16.8	+16.4
1969-70	86,213	30,636	1,16,849	— 0.5	+ 12.5	+ 2.6
1970-71	87,237	33,160	1,20,397	+ 1.2	+ 8.2	+ 3.0

The chances of finding an export market for the surplus rubber are remote as Indian rubber is priced out in the world markets. The problem of prices will persist as long as the productivity is low.

Productivity

In 1968-69, the average yield per hectare in India was only 580 kgs. (The yield per hectare at 900 kgs. given in Table 3 is higher because it is assumed that old rubber trees will be replaced by high-yielding varieties.) as against 917 kgs. in Malaysia and 628 kgs. in Ceylon. The low yield has resulted in uneconomic production leading to a wide disparity between internal and international prices. Thus, while the floor price fixed by the Government is Rs. 5.20 per kg., f.o.b. prices in London for Malaysian rubber are around Rs. 4.80 to Rs. 5.00. It is, therefore, evident that natural rubber from India does not stand a chance to compete in international markets. An important reason for the low yield per acre in India is the fragmentation of holdings. In 1955-56, the number of holdings with 2 hectares and below formed only 27.9 per cent of the total planted area, whereas in 1970-71, it rose to 47.0 per cent of the total planted area.

Glut only Temporary

The demand for various types of tyres is estimated to be 67.1 lakhs by 1974. The capacity of the tyre industry, which is 51.81 lakhs at present, would be expanded to 88.81 lakhs by 1974. With the completion of the expansion programmes, it is only reasonable to expect that the demand for rubber will go up and the surplus will automatically disappear.

TABLE No. 7
Capacity, Production and Demand for Tyres
(Lakh tyres per year)

Company	Existing Capacity					Expansion under Implementation				Total Capacity
1. Capacity										
Dunlop	...	...	...	11.99	...	2.50	...	...	14.49	
Firestone	...	...	...	6.72	...	—	...	...	6.72	
Ceat	...	...	...	4.00	...	2.50	...	...	6.50	
MRF	...	...	...	3.60	...	2.50	...	...	6.10	
Goodyear	...	...	...	3.10	...	2.90	...	...	6.00	
Incheck	...	...	...	3.00	...	3.00	...	...	6.00	
Premier	...	...	...	3.00	...	3.00	...	...	6.00	
				35.41	16.40				51.81	
Total installed capacity										
Modi: Will start in 1972				...	...	...	...	...	4.00	
MRF Goa Unit: Will start in 1973				...	...	...	...	...	3.00	
Universal: Will start in 1974				...	...	...	...	...	3.00	
Letters of intent for ten units: Implementation will begin in 1974.				...	...	...	...	...	27.00	
Total capacity proposed									88.81	
2. Production										
1971	...	...	...	...	...	...	...	...	46.4	
1972	(Estimate)	...	...	...	...	...	...	...	55.0	
3. Demand Estimates										
1972	...	...	...	...	...	...	...	...	54.0	
1973	...	...	...	...	...	...	...	...	60.0	
1974	...	...	...	...	...	...	...	...	67.1	

The annual per capita consumption of rubber (natural and synthetic) in 1969 was as low as 0.22 kg. in India as against 12.96 kgs. in the U.S.A., 8.84 kgs. in W. Germany, 8.48 kgs. in Canada, 8.06 kgs. in the U.K., 7.43 kgs. in France, 6.78 kgs. in Japan and 6.71 kgs. in Australia. This clearly shows that there is scope for raising the consumption of rubber in India. With increasing economic progress, the consumption is bound to go up rapidly in the coming years and the present glut may prove to be only temporary.

Synthetic Rubber : Whether it Poses a Threat to Natural Rubber Industry

Synthetic rubber has been playing an increasingly greater and important role the world over due to technological advancement and scientific development. As can be seen from the following Table, the international trend has been markedly towards synthetic rubber.

TABLE No. 8
Consumption of Synthetic Rubber as Percentage of Total Rubber Consumption

Country	1960	1965	1970	1971@
U. S. A....	69.3	75.0	77.8	78.0
U. K. ...	39.2	49.5	59.1	—
West Germany ...	41.8	56.9	64.1	63.7
France ...	41.6	55.8	61.8	—
Italy ...	43.6	56.5	63.6	—
Japan ...	26.8	46.6	63.7	63.4
India ...	12.5	24.0	26.9	29.4
World	52.1	61.2	66.2	66.6

@ For two months

Synthetic rubber has certain advantages over natural rubber. Production of synthetic rubber can be tailored to the needs as against natural rubber, which is dependent

on the vagaries of nature. The newer varieties of a large number of rubber products that are manufactured require rubber with specific properties, which natural rubber is not able to provide at times.

Production of synthetic rubber began in the country when the plant at Bareilly manufacturing styrene butadiene type of rubber (SBR) was commissioned in May 1963. From 8,075 tonnes in 1963-64, the production from this plant increased to 29,971 tonnes in 1970-71. There is a proposal to increase the capacity of the SBR plant to 50,000 tonnes. It is also reported that a polybutadiene (one of the important chemical intermediates for the manufacture of synthetic rubber) plant in the public sector with a capacity of 20,000 tonnes at Koyali in Gujarat is likely to go on stream by 1976.

By and large, it is believed that the development of synthetic rubber will adversely affect the growth of natural rubber. This belief has been strengthened by the recent glut in the natural rubber market. The main reason for the general fall in the market price of natural rubber during the last two years has been the low offtake by the consuming industry. Indian rubber industry consumes mainly natural rubber for two reasons. Firstly, India is a natural rubber producing country and secondly, tyres produced in India are mostly truck and heavy duty tyres requiring natural rubber to withstand the rough road conditions that exist in the country. There are severe restrictions on the usage of synthetic rubber in the manufacture of tyres. Hence its potential as a substitute for natural rubber in major end uses is limited. Moreover, as the total demand for rubber is expected to exceed production (even if we take into account the proposed expansion of the SBR plant at Bareilly and the new capacity at Koyali) in the current decade, synthetic rubber is not likely to pose a threat to natural rubber in the seventies.

Future Prospects

A revival in the consumption pattern witnessed in the past few months augurs well for the rubber plantation industry. With the major rubber consuming industries, especially tyre manufacturing industry, poised for considerable expansion, demand for natural rubber is likely to increase considerably in the coming years.

TABLE No. 9

Production of Natural Rubber and Synthetic Rubber and Anticipated Shortfalls during 1971-72 to 1979-80

(In thousand metric tonnes)

Year	Natural Rubber@		Synthetic Rubber (SBR)*		Total	Estimated Demand		Deficit		
1971-72	...	102	...	30	...	132	...	153	...	21
1972-73	...	112	...	32	...	144	...	171	...	27
1973-74	...	125	...	36	...	161	...	196	...	35
1974-75	...	135	...	36	...	171	...	216	...	45
1975-76	...	143	...	36	...	179	...	239	...	60
1976-77	...	153	...	36	...	189	...	266	...	77
1977-78	...	164	...	36	...	200	...	296	...	96
1978-79	...	175	...	36	...	211	...	327	...	116
1979-80	...	190	...	36	...	226	...	366	...	140

@ Additional areas that are being brought under cultivation by the plantation industry and high-yielding varieties of seedlings have been taken into consideration while making the production forecasts of natural rubber.

* SBR production estimates are based on the present capacity of the Bareilly Plant.

If the above estimates, made by individual writers and published in financial journals, are taken as a pointer towards the future, there appears to be a case for increasing the production of both natural and synthetic rubber in the country to meet the growing demand.

Current Topics

Annual Plan for 1972-73

The Annual Plan for 1972-73, which was recently presented to the Parliament by the Union Minister for Planning, shows a sizeable increase of Rs. 815 crores or 25.8 per cent in the Plan outlay to Rs. 3,973 crores as against the outlay of Rs. 3,158 crores in 1971-72. It is hoped that the increase in public investment, which is reflected in the step up in the Plan outlay, will provide substantial stimulus to the economy. In addition, specific attention is given to promote self-reliance and social justice and correct the shortfalls and deficiencies revealed by the Mid-term Appraisal of the Fourth Plan. High priority has been accorded in the Annual Plan to (a) firm commitments, (b) spillover expenditures from the previous year, (c) completion of works in an advanced stage of construction, (d) expeditious construction of other works on hand and (e) fuller utilisation of capacities already created. Accelerated implementation of special schemes for generating additional employment opportunities especially in rural areas and for educated unemployed has been emphasised in the Annual Plan.

Plan Outlay

Of the total outlay of Rs. 3,973.42 crores proposed for the Annual Plan for 1972-73, the Central Plan accounts for Rs. 2,144.20 crores, showing an increase of Rs. 585.04 crores over Rs. 1,559.16 crores in 1971-72, and the States' Plans for Rs. 1,601.75 crores, representing an increase of Rs. 213.84 crores over that in the last year. The outlay on Centrally sponsored schemes and Union Territories will be Rs. 162.97 crores and Rs. 64.50 crores respectively as against the Plan outlay of Rs. 141.50 crores and Rs. 69.11 crores respectively in 1971-72.

With a view to achieving the basic objective of steady rate of growth and to promoting social justice, the States' Annual Plans for 1972-73 have been formulated in such a manner as to lay greater emphasis on production-oriented sectors, employment-oriented programmes and schemes benefiting the vulnerable sections of the community. Thus, of the increased outlay of Rs. 198 crores, nearly one-third has been allotted for the expansion of social services like education, health, water supply and welfare of backward classes. Further, 20 per cent of the additional outlay will be for agricultural programmes including co-operation. The distribution of the Plan outlay for 1972-73 is shown in the following Table :

TABLE No. 1
Distribution of the Plan Outlay for 1972-73
(Rs. in crores)

Head of Development	Centre	Centrally Sponsored Schemes	States	Union Terri- tories	Total
1. Agriculture and Allied Programmes	422.3	27.2	326.5	6.4	782.4
2. Irrigation and Flood Control	4.9	—	253.4	2.0	260.3
3. Power	123.7	11.5	456.6	11.0	602.8
4. Village and Small Industries	28.8	3.2	28.9	1.6	62.5
5. Industry and Minerals	686.4	—	43.8	0.6	730.8
6. Transport and Communi- cations	581.0	11.6	127.8	8.0	728.4
7. Education	51.7	7.6	124.4	10.8	194.5
8. Scientific Research	42.4	—	—	—	42.4
9. Health	10.2	30.0	43.0	4.1	87.3
10. Family Planning	7.0	56.2	—	—	63.2
11. Water Supply and Sanitation	0.2	0.9	88.7	12.3	102.0
12. Housing, Urban and Regi- onal Development	11.2	—	45.7	5.0	61.9
13. Welfare of Backward Classes	—	14.4	27.3	0.5	42.2
14. Social Welfare	151.0	0.4	2.2	0.4	154.0
15. Labour Welfare and Craftsmen Training	2.3	0.1	5.0	0.6	8.0
16. Other Programmes	21.1	0.0	28.5	1.1	50.7
17. Total	2,144.2	163.0	1,601.8	64.5	3,973.4

Agriculture and Allied Programmes

Total production of foodgrains is expected to go up to 118 million tonnes in 1972-73. To achieve self-reliance, all out efforts will be made to boost the production of important commercial crops such as cotton, jute and oilseeds, where production has fallen short of the Plan targets. To increase the production of long staple cotton, an intensive cotton district programme will be taken up in 1972-73, in an area of 6.2 lakh hectares out of which 4.9 lakh hectares will be irrigated. An area of 1.8 lakh hectares spread over six jute producing districts of West Bengal, Bihar, Orissa and Assam will be taken up for the implementation of intensive district programme for jute. In addition, 20,000 hectares will be covered by the programme for the development of mesta in Andhra Pradesh. In the field of oilseeds, programmes have been included to propagate the production of new oilseeds such as soyabean, sun-flower and palm oil.

Major and Medium Irrigation

Priority has been given to the completion of the continuing schemes, which are in an advanced stage of construction. A number of new major and medium irrigation schemes will be launched. The proposal for a national water grid is being examined.

Industries and Minerals

Out of the total outlay of Rs. 793.39 crores provided in the Annual Plan for 1972-73 for industries and minerals, the bulk of the outlay is intended for basic industries like steel, fertilisers, petroleum, mineral development and non-ferrous metals. While 30 per cent of the outlay has been provided for steel projects, substantial additional provision has been made for the aluminium and copper projects. Particular attention will be given to fuller utilisation of existing capacity.

Apart from the need for expanding activities in the production of consumer goods, which are in short supply, modernisation and rehabilitation of traditional industries will be an important task in 1972-73. It is proposed to give

particular attention to the industrial development of backward areas. Apart from concessional finance, the Industrial Development Bank of India in collaboration with other institutions and State Governments will undertake studies on the industrial potential of backward districts. Provision has also been made for new projects to be taken up by way of advance action for the Fifth Plan, as for example, for the new steel plants to be put up at Hospet, Vishakhapatnam and Salem.

In the field of village and small industries, financial and other assistance will be provided to the educated unemployed and particularly to technically qualified persons for setting up their own industries.

TABLE No. 2
Selected Targets of Production in 1972-73

Item	Unit	Target
1. Steel ingots	million tonnes	7.5
2. Finished steel	"	5.6
3. Alloy and special steel	'000 tonnes	232
4. Aluminium	"	180
5. Nitrogenous fertilisers (in terms of N)	"	1400
6. Phosphate fertilisers (in terms of P_2O_5)	"	400
7. Coking coal	million tonnes	18
8. Iron ore	"	30
9. Production of crude petroleum	"	7.5
10. Refining capacity in terms of crude throughput	"	19.0
11. Paper and paper board	'000 tonnes	775
12. Cement	million tonnes	16.0
13. Cotton (Mill sector)	million metres	4000
14. Handloom, powerlooms and khadi	"	3380
15. Sugar	'000 tonnes	4000

Power Development

The addition of 1.5 million kw. during 1972-73 will step up the aggregate installed capacity in the country to about 18.5 million kw. The total sale of energy is expected to

increase from about 54,000 million units in 1971-72 to about 59,000 million units in 1972-73.

Transport

Railways : According to the Annual Plan, the rail traffic is expected to increase by 9.5 million tonnes to 206 million tonnes in 1972-73. An increase of about 3 per cent in passenger traffic is anticipated in 1972-73. A significant rise in the acquisition of rolling stock is expected in 1972-73, which will help to step up supplies of wagons for the movement of coal, cement, etc., in respect of which transport difficulties have been experienced of late. About 16,000 wagons are proposed to be acquired in 1972-73 as against 9,178 in the previous year. Major part of the proposed outlay will be utilised for the completion of work already in progress and also for certain new programmes such as guage conversion, doubling of track and new lines.

Roads : An outlay of Rs. 77.53 crores for the Central roads programme has been provided in the Annual Plan for 1972-73 with special emphasis on the development of existing national highways. For States and Union Territories, a provision of Rs. 112 crores has been made for the road development programme. A large part of the provision will be utilised for schemes already in progress.

Shipping : The total Indian shipping tonnage is expected to increase from 2.51 million g.r.t. at the end of 1971-72 to 2.67 million g.r.t. at the end of 1972-73.

Ports : The target set for the traffic handled by the major ports for 1972-73 is 65 million tonnes, 7 million tonnes more than that handled in 1971-72. The programme will include work on the Outer Harbour Scheme at Vishakhapatnam, completion of the Old Dock Scheme at Madras, construction of ore and coal loading plants at Haldia and the Mormugao Port project.

Financing of the Plan

Financing of the enlarged public sector Plan outlay

in 1972-73 places greater reliance on domestic budgetary resources, which are estimated at about Rs. 3,418 crores and which represent 86 per cent of the Plan outlay as against 78 per cent in the Annual Plan for 1971-72.

TABLE No. 3
Financing of the Plan for 1972-73

(Rs. in crores)

	Centre	States	Total
1. Total domestic budgetary resources	2,468	950	3,418
2. Budgetary receipts corresponding to external assistance (net)	380	—	380
3. Deficit financing	242	—67	175
4. Aggregate resources (1+2+3)	3,090	883	3,973
5. Assistance for State Plans	—719	719	—
6. Resources for the Plan (4+5)	2,371	1,602	3,973

Budgetary receipts corresponding to external assistance, on the other hand, total Rs. 380 crores or 10 per cent of the Plan outlay for 1972-73 as against 15 per cent for 1971-72. Deficit financing in 1972-73 has been taken at Rs. 175 crores, which works out to over 4 per cent of the Plan outlay as compared to 7 per cent in the Annual Plan for 1971-72.

Rural Development and Employment

The Annual Plan for 1972-73 lays emphasis on programmes of rural development and employment by (i) accelerating the pace and improving the quality of implementation of on-going special programmes such as the Small Farmers Development Agency (SFDA) and the Marginal Farmers and Agricultural Labour (MFAL) projects, pilot tribal development projects, crash scheme of rural em-

ployment and the drought prone area programme and secondly, by taking new initiatives for integrated rural development in different land and water resource situation such as dry farming and hilly areas and areas where canal irrigation has been recently introduced. A new development visualised during 1972-73 is intensive rural employment projects in the nature of study-cum-action projects in 10 to 15 blocks as part of the crash scheme for rural employment.

The Annual Plan for 1972-73 has earmarked Rs. 50 crores for the implementation of the crash scheme for rural employment. The scheme aims at providing employment to at least 1,000 of the most needy persons in rural areas in each district. The development of rural infrastructure can be brought about by widening the scope of works so as to include construction of new class rooms for primary school buildings, rural housing for weaker sections of the village community and rural godowns. Another move is to take up study-cum-action projects in about 10 to 15 C.D. blocks where the problem of rural employment is relatively more acute. This will help to develop arrangements for gauging the availability of unskilled labour at different times of the year and to offer work opportunities matching the time profile of such unemployment.

In pursuance of the suggestions made by the Planning Commission to eradicate unemployment among educated unemployed, involving an outlay of Rs. 13 crores for 1971-72 and Rs. 25 crores each for 1972-73 and 1973-74, the Central Government has formulated programmes for the benefit of the educated unemployed during 1971-72.

Of the total of Rs. 60 crores envisaged for special employment schemes in 1972-73, Rs. 13 crores would be required for continuing programmes for educated unemployed, while Rs. 47 crores would be available for the formulation of special employment schemes. Part of this amount would be utilised for generating employment and training opportunities for highly qualified personnel like engineers, technologists and scientists.

Legal Decisions

On Banking

Distinction between Lease and Licence

Sohan Lal Naraindas

vs.

Laxmidas Raghunath Gadit

74 Bombay Law Reporter 144

Contributed by N. K. Randeria

Sohan Lal was the lessee of a shop. He granted to Laxmidas leave and licence to use and occupy a loft in the said shop for a period of one year under an agreement dated November 3, 1958. Laxmidas was put in exclusive possession of the loft. His customers used a separate entrance to the loft during business hours and his stock

remained in the loft after business hours. There was no evidence that the loft was given to Laxmidas out of sympathy or because of friendship or relationship, or any similar motive. In accordance with the terms of the agreement, the licence was terminated and withdrawn by Sohan Lal by giving to Laxmidas one month's clear notice. On the failure of Laxmidas to vacate the loft, Sohan Lal commenced an action for a decree in ejectment.

Laxmidas contended that he was a tenant of the loft, that the tenancy had not been duly terminated as required by law, that he was entitled to protection of the Rent Act and that the Court had no jurisdiction to try the suit.

Dismissing the suit, the Trial Court observed that although on consideration of the clauses of the agreement it was unable to reach a conclusion whether the agreement was intended to operate as a lease or as a licence, since exclusive possession was given to Laxmidas, it must be regarded as a lease.

On appeal, the High Court took the view that having regard to the exclusive possession given to Laxmidas, it was intended to confer an interest in the loft, and on that account the agreement operated as a lease and not as a licence.

On further appeal, the Supreme Court was unable to disagree with the view taken by the High Court. The Supreme Court referred to Section 52 of the Easements Act, which defined a "licence", and Section 105 of the Transfer of Property Act, which defined a "lease", and observed, "A licence confers a right to do or continue to do something in or upon immovable property of grantor which, but for the grant of the right, may be unlawful, but it creates no estate or interest in the immovable property of the grantor. A lease on the other hand creates an interest in the property demised." Declaring that the intention of the parties to an instrument must be gathered from the terms

of the agreement, which should be examined in the light of the surrounding circumstances, and that the description given by the parties might be evidence of intention but was not decisive, the Supreme Court said, "Mere use of the words appropriate to the creation of a lease will not preclude the agreement operating as a licence. A recital that the agreement does not create a tenancy is also not decisive. The crucial test in each case is whether the instrument is intended to create or not to create an interest in the property, the subject matter of the agreement. If it is in fact intended to create an interest in the property it is a lease. If it does not, it is a licence. In determining whether the agreement creates a lease or a licence the test of exclusive possession, though not decisive, is of significance."

In the result, the appeal failed and was dismissed with costs.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 30-6-1972	A Month Ago 26-5-1972	A Year Ago 25-6-1971
State Bank of India			
Aggregate Deposits :	1,682.0	1,659.2	1,328.0
Demand (Exclusive of inter-bank transactions)	771.9	773.1	613.3
Time (-do-)	910.1	886.1	714.7
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,274.3	1,262.2	1,148.4
Investments in Government Securities	460.0	415.0	342.9
Subsidiary Banks			
Aggregate Deposits :	444.3	440.9	376.4
Demand (Exclusive of inter-bank transactions)	186.1	189.9	156.4
Time (-do-)	258.2	251.0	220.0
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	343.6	332.7	289.7
Investments in Government Securities	91.0	92.6	71.8
All Scheduled Commercial Banks			
Aggregate Deposits :	7,523.5	7,319.9	6,216.2
Demand (Exclusive of inter-bank transactions)	3,288.6	3,176.7	2,742.8
Time (-do-)	4,234.9	4,143.2	3,473.4
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,377.1	5,331.4	4,762.9
Investments in Government Securities	1,664.1	1,674.3	1,375.1

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	March 1972	Decem- ber 1971	March 1971
State Bank of India			
No. of Offices ...	2,532	2,477	2,189
Finance to Small Scale*			
Industries :			
No. of Units Assisted	39,299	38,489	35,118
Limits Sanctioned ...	271.76	262.12	243.40
Outstandings ...	184.24	176.88	157.87
Direct Finance for			
Agriculture :			
No. of Accounts ...	1,85,095	1,93,852	2,12,247
Limits Sanctioned ...	64.57	68.91	71.33
Outstandings ...	44.31	47.70	50.26
Indirect Finance for			
Agriculture :			
No. of Accounts ...	906	920	1,029
Limits Sanctioned ...	94.51	96.78	164.76
Outstandings ...	34.63	41.07	62.09
Export Finance :			
Outstandings ...	118.13	108.05	97.85
Subsidiary Banks			
No. of Offices ...	1,357	1,304	1,192
Finance to Small Scale*			
Industries :			
No. of Units Assisted	20,310	19,650	17,769
Limits Sanctioned ...	96.57	90.35	88.47
Outstandings ...	56.96	50.19	46.96
Direct Finance for			
Agriculture :			
No. of Accounts ...	63,066	65,414	66,424
Limits Sanctioned ...	31.13	31.97	33.77
Outstandings ...	19.40	21.15	21.75
Indirect Finance for			
Agriculture :			
No. of Accounts ...	861	801	653
Limits Sanctioned ...	16.97	16.62	25.04
Outstandings ...	7.19	6.97	8.87
Export Finance :			
Outstandings ...	15.11	14.03	12.62

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 30-6-1972	A Month Ago 26-5-1972	A Year Ago 25-6-1971
(Amounts in rupees crores)			
1. Money Supply with the Public ...	8,470	8,388	7,462
(a) Currency with the public ...	5,007	5,015	4,591
(b) Deposit money with the public	3,463	3,373	2,871
	April 1972	March 1972	April 1971
2. Foreign Exchange Reserves ...	854.6	848.7	773.7
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	$8\frac{1}{2}$	$8\frac{1}{2}$	$8\frac{1}{2}$
(c) State Bank of India Hundi Rate ...	$8\frac{3}{4}$ - $10\frac{1}{2}$	$8\frac{3}{4}$ - $10\frac{1}{2}$	$9\frac{1}{2}$
(d) Call Money Rate (Bombay) ...	5.0	8.1	8.7
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

		November 1971	October 1971	November 1970
4. Index Number of Industrial Production (1960=100)				
General Index ...		191.3	190.1	183.8
(Adjusted)				
	Week ended	Week ended	Week ended	
	24-6-1972	27-5-1972	26-6-1971	
5. Index Numbers of Wholesale Prices (1961-62=100)				
All Commodities ...	198.7	194.2	186.1	
Food Articles ...	229.4	221.7	206.8	
Liquor and Tobacco	215.5	216.4	194.4	
Fuel, Power, Light and Lubricants ...	177.1	178.2	172.5	
Industrial Raw Materials ...	183.9	173.9	191.2	
Chemicals ...	200.1	200.1	195.0	
Machinery and Transport Equipment	165.9	165.8	156.6	
Manufactures ...	173.4	173.0	164.8	
	March 1972	February 1972	March 1971	
6. Consumer Price Index Number for Industrial Workers — All-India (1960=100)				
	194	193	184	
7. Foreign Trade	February 1972	January 1972	February 1971	
	(Rupees in crores)			
Total Imports ...	152.1	177.8	134.3	
Total Exports (including re-exports) ...	134.9	143.4	102.4	

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।

STATE BANK OF INDIA MONTHLY REVIEW

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Salary Income and Tax

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Salary Income and Tax Laws—Part II

S. R. Darekar

Non-taxable Perquisites

The value of the following benefits and amenities is exempt from tax :

- (i) provision of medical facilities to the employee or his family free of charge, the expenses on such medical treatment being borne by the employer;
- (ii) re-imbusement of medical expenses incurred by the employee;
- (iii) provision of refreshments during office hours in the office premises;
- (iv) provision of recreational facilities for groups of employees; and
- (v) rewards paid to the informers and staff of the Customs and Central Excise, etc. These are

treated as being of a casual and non-recurring nature and are exempt under Section 10(3).

After determining the gross salary, certain amounts are allowed as deductions. The following are the deductions permissible under the Act:

(i) Expenditure on Books, etc.

An amount not exceeding Rs. 500 spent by the employee for the purchase of books and other publications necessary for the purpose of his duties is allowed. This amount is not to be deducted from the salary income. Such expenditure has to be claimed by the employee (assessee) at the time of finalisation of the assessment.

(ii) Entertainment Allowance

Any allowance in the nature of entertainment allowance specifically granted to an employee by his employer is to be included in his salary income and thereafter a deduction therefrom is permissible subject to the following conditions and limits :

(a) Non-Government Employees

Conditions for Exemption : (i) The entertainment allowance should have been regularly and continuously received by the employee from his present employer from a date before April 1, 1955; and (ii) if the employee leaves the service of the present employer and joins another employer from whom he receives a similar entertainment allowance, the exemption will not be available.

Limits of Exemption : (i) The actual amount of the allowance drawn during the financial year 1954-55; or (ii) actual amount of the allowance drawn during the previous year relevant to the assessment year; or (iii) one-fifth of the salary of the employee (exclusive of any allowance, benefit or other perquisite); or (iv) Rs. 7,500, whichever is the least.

(b) Government Employees

In the case of Government employees, the condition for the continuous drawal of entertainment allowance before April 1, 1955 is not operative. The exemption is restricted to one-fifth of salary or Rs. 5,000, whichever is less.

(iii) Profession Tax

Any amount paid in respect of taxes on professions, trades, callings or employments levied under any State act is allowed as deduction for calculating salary for tax deduction purposes on production of proof by the employee before the employer. The adjustment in this behalf in the tax deductible at source may be made in the last month.

(iv) Conveyance Expenditure

The Act provides for standard deductions in the case of salaried tax payers in respect of expenditure on travelling for the purpose of employment at the following rates for each calendar month or part thereof comprised in the period of his employment during the previous year, provided they are not in receipt of conveyance allowance :

Category of employee	Standard deduction per month Assessment year 1972-73
1) When the employee owns a motor car which is used for the purpose of his employment	Rs. 200
2) When the employee owns a motor cycle, scooter or a moped	Rs. 75
3) In any other case	Rs. 50

If the employee is in receipt of any conveyance allowance from the employer then only actual amount spent towards conveyance is allowed as deduction and the above standard deduction on account of conveyance expenditure is not to be made.

In the case of employees owning cars, motor cycles, scooters or other moped, the standard deduction is admissible only if the conveyance is registered in the employee's name and not in the name of any other person, even though such employee may claim to have purchased it from his own funds.

The standard deduction of Rs. 50 per month is admissible to such of the salaried tax payers who do not own any conveyance as also to those who own a bicycle or own other conveyance not being a motor car, motor cycle, scooter or other moped; for such an employee to be eligible for this deduction, it is not necessary to establish that he had actually incurred any expenditure on travelling for the purpose of his employment.

The deduction of appropriate amount for expenditure should be allowed in calculating the tax to be deducted at source from the salary income. The standard deductions mentioned above will not be available to an employee, who is in receipt of a conveyance allowance whether as such or as part of his salary.

(v) Donations for Charitable Purposes

No deductions should be made from the salary income in respect of any donations for charitable purposes. The tax relief on such donations will have to be claimed by the employee (tax payer) separately at the time of the finalisation of the assessment. However, in cases where contributions to the National Defence Fund, Jawaharlal Nehru Memorial Fund or the Prime Minister's Drought Relief Fund are made by deduction from pay bills, 55 per cent of such contributions may be deducted in computing the taxable income of the employee. Care should be taken to see that the aggregate of such contributions for the year is not less than Rs. 250. The employers (Disbursing Officers) should show the total contributions in the remarks column of the return under Section 206 of the Income-tax Act, 1961.

(vi) Life Insurance Premium, Provident Fund and Cumulative Time Deposits

While computing the taxable income, the Disbursing Officers should allow a deduction of the whole of the first Rs. 1,000, 50 per cent of the next Rs. 4,000 and 40 per cent of the balance of the qualifying amount of payments towards Life Insurance Premia, contributions to Provident Fund and Deposits in a 10 Year Account or 15 Year Account under the Post Office Savings Bank (Cumulative Time Deposit) Rules 1959. The qualifying amount of these items taken together is limited to 30 per cent of the 'gross salary' [after the deduction, if any, for profession tax, etc., referred to in item (iii) and for expenditure on travelling referred to in item (iv)] or Rs. 20,000 or the actual amount of such payment, contribution, deposit, etc., whichever is less.

Conditions

(i) Life Insurance Premium : (a) The premiums are paid by the assessee out of income chargeable to income-tax. (b) The premium is paid in order to effect or to keep in force an insurance on the life of the assessee or on the life of the wife or husband or any child of the assessee. An insurance on the life of any person for this purpose shall include (i) pure endowment assurance policy wherein it is provided to secure the payment of a specified sum on the stipulated date of maturity of the policy, if such person is alive on that date or the return of premiums paid in the event of such person dying before the maturity date; (ii) childrens' deferred policy for the benefit of a minor with the object of enabling the minor after he has attained majority to secure an insurance on his own life by adopting the policy. (c) The premium paid for an insurance (other than a contract for deferred annuity) on the life of the wife or husband or any child should not exceed 10 per cent of the capital sum assured for each policy. The excess, if any, is to be disregarded for determining the qualifying amount.

(ii) *Contributions to Recognised Provident Fund* : Contributions should not exceed 20 per cent of the salary or Rs. 8,000, whichever is less.

(iii) *Deposits under the Post Office Savings Bank (Cumulative Time Deposit) Rules 1959* : The deposits (either in the name of himself or his wife or children) are made out of income chargeable to income-tax. Only individuals (not H.U.F.) can make deposits in such bank accounts. Deposits made only in ten year or fifteen year account qualify for deduction. Limits of deposits is Rs. 500 per month in each type of account (i.e. 10 Year and 15 Year) subject to a maximum deposit up to Rs. 90,000 in single account and Rs. 1,80,000 in joint account.

(iv) *Subscription to Public Provident Fund Scheme 1968* : The subscriptions should be made out of income chargeable to income-tax and should not exceed Rs. 15,000 in a year. Only individuals and not H.U.F. can subscribe towards Public Provident Fund Scheme.

EMPLOYER'S OBLIGATIONS

Deduction of Tax at Source

It is obligatory on the part of the employer or the person responsible for the payment of income chargeable under the head "salaries" to deduct the tax at source from such income if the annual estimated income under this head exceeds the amount not liable to tax. The employer has to make an estimate of the total emoluments payable to the employee during the financial year after taking into account all the payments that the employee would receive during the financial year.

From the gross salary income so computed deductions on account of (i) entertainment allowance, (ii) profession tax, (iii) standard deduction for conveyance expenses and (iv) payments of life insurance premiums and contribution

to Provident Fund must be allowed to arrive at the taxable salary income. The employer is permitted to adjust any short or excess deduction in the last three months of that year. The last date for deduction of tax from salary for any financial year is the 31st March of that year.

After deduction of tax, the employer is under obligation to send every month the particulars of such deduction in Form No. 21 to the Income-tax Officer. He is also under obligation to give certificate to every employee in Form No. 16 immediately and for default in giving such certificate, the employer is liable to fine. A certificate in Form No. 23 is required to be furnished to the Income-tax Officer immediately after the end of each month.

Tax Deducted to be Credited to Government

The employer is under obligation to make payment of the tax deducted at source from salary into Government Treasury or to the bank conducting Government business, within seven days from the date of such deduction. However, the employer may obtain permission of the Income-tax Officer to make the payment of tax quarterly on the 15th June, the 15th September, the 15th December and the 15th March.

For failure without reasonable cause or excuse to deduct or after deducting failure to pay the tax to Government, the employer is punishable with rigorous imprisonment up to six months and is also liable to fine, which is not less than the sum calculated at the rate of 15 per cent per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

Annual Return of Salaries and Tax

The employer has to deliver to the Income-tax Officer within 30 days from the 31st day of March in each year, i.e., on or before the 30th April each year, particulars of the

employees to whom the amount of salary of Rs. 600 less than taxable limit (Rs. 5,000 less Rs. 600 = Rs. 4,400) or more is paid during the financial year along with their address, amount of salary, tax deducted, etc. Such particulars are to be furnished in Form No. 24 every year on or before the 30th April. For default the employer is punishable with fine, which may extend to Rs. 10 for every day of default.

It may be noted that every employee, who has earned a taxable salary in any previous year, is required to file his return of income voluntarily under Section 139(1) for the relevant assessment year within the time allowed by that Section even though tax has been deducted at source from such salary. Credit for the tax so deducted is allowed at the time of regular assessment under Section 143 of the Act.

Having covered the salient issues connected with the salary income, I propose to give a broad outline of certain subjects connected with the salary income.

House Property

Income derived from the house property by the legal owner in whose name the property stands is subject to tax. The employee, who is a member of a co-operative housing society and to whom a building or part thereof is allotted or leased under a house building scheme, is considered to be the owner of such property under Section 27 of the Act.

The income computed under the head "House Property" is notional and not the real income, as no rent is derived from such property. The annual value of property of which the employee is the owner is chargeable to income-tax under this head. The municipal rateable value in cities like Bombay, Madras, Delhi and Calcutta is to be increased for income-tax purpose by one-ninth of the rateable value. The annual value of owner-occupied house must first be computed as if the property is let out on rent, i.e.,

deducting the whole municipal tax. The annual value so computed is to be reduced by 50 per cent thereof or Rs. 1,800, whichever is less, subject to a maximum of 10 per cent of the assessee's other income (i.e., all his income other than the income attributable to such self-occupied property and excluding deductions made on account of life insurance premium, contributions to Provident Fund, etc.). In other words, the annual value so reduced should not exceed 10 per cent of the employee's income from all sources excluding the income attributable to self-occupied property. This concession is restricted to two 'owner occupied' houses. If more than two houses are occupied for residential purposes, the assessee has to specify the houses of his choice qualifying for the concession. The annual value of houses other than those qualifying for such concession should be computed as if let out on rent.

Deductions Allowed from House Property Income

The income under this head is to be computed after making the following deductions from the annual value determined as mentioned in the preceding paragraph:

- (i) Repairs at $\frac{1}{6}$ th of the annual value if the owner has to bear the cost of repairs.
- (ii) The premium paid to insure the property against risk of damage or destruction.
- (iii) Where the property is subject to any annual charge (not being a charge created by the assessee voluntarily or a capital charge), the amount of such charge.
- (iv) Where the property is subject to a ground rent, the amount of such ground rent.
- (v) Where the property has been acquired, constructed, or reconstructed with borrowed capital, the amount of interest paid on such borrowings.
- (vi) Any sum paid on account of land revenue or any other tax levied by the State Government in respect of the property.

- (vii) Collection charges paid which should not exceed 5 per cent of the annual value of the property.
- (viii) Where the property was let out and was vacant during a part of the year, that part of the annual value which is proportionate to the period during which the property was wholly unoccupied.

For computing the house property income, the following formula can be adopted conveniently :

Municipal rateable value	Rs.
Add 1/9th	Rs.
	<u>Rs.</u>
Less : Full municipal taxes	Rs.
Less : One half for self occupation	Rs.
	<u>Rs.</u>
*Reduced annual value	<u>Rs.</u>
*This is subject to maximum of 10 per cent of the assessee's other income.	
Net annual value	*Rs.
Less : 1/6th of annual value for repairs	Rs.
Ground rent	Rs.
Fire insurance premium	Rs.
Interest on borrowings	Rs.
	<u>Rs.</u>
Property income	<u>Rs.</u>

If for any reason, the property income results in a loss, the same can be set off against any other head of income.

Recognised Provident Fund

The employee's contribution to the recognised provident fund forms part of his salary and is included therein for tax purposes. However, such contributions qualify for deduction to the extent of and subject to the provisions of Section 80-C as explained elsewhere in this article. As for

the employer's contribution to the employee's account in the fund, up to 10 per cent of the latter's salary is not includible in the salary income of the employee. For this purpose the term 'salary' includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites. As for the interest credited to the employee in his individual account in the fund, up to one third of the salary or up to 6 per cent per annum, whichever is lower, is not to be included in the salary income. If the employer's contribution exceeds 10 per cent of the salary, the excess over 10 per cent as well as excess interest, if any, credited to the employee over the specified limit should be included in the salary as 'income deemed to be received' in the previous year.

As regards receipts from the fund by the employee of the accumulated balance due and becoming payable to him, Section 10(12) provides that such receipts should be excluded from the computation of his taxable income for tax purposes provided the employee has rendered continuous service with his employer for a period of five years or more. The exemption would be available even in cases where the employee has not rendered such continuous service but his service has been terminated by reason of his ill health or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee.

Penalty for Assigning or Creating a Charge on Beneficial Interest

It is to be noted that an employee cannot assign or create a charge upon his beneficial interest in a recognised provident fund. If he does so, the Income-tax Officer, on coming to know of any such contravention, shall give a notice to the employee to cancel such assignment or a charge within two months of the date of receipt of the notice. If the employee fails, the consideration of such assignment or charge is deemed to be income received by

him in the year in which the fact became known to the Income-tax Officer and is to be assessed accordingly.

Amount Withdrawn but not Repaid

In the case of default of repayment of instalments due or where the amount withdrawn is not utilised for the purpose for which it is withdrawn, the Commissioner may at his discretion order that the amount of the withdrawal or the amount outstanding shall be added to the total income of the employee for the year in which the default occurs or the withdrawn amount is finally held not to have been utilised for the purpose for which it is withdrawn and the Income-tax Officer shall assess the employee accordingly.

WEALTH-TAX

Whether Provident Fund Amount is Taxable

Section 5(1)(xvii) of the Wealth-tax Act 1957 provides that the amount standing to the credit of an assessee, being a salaried employee, in any provident fund maintained by his employer to which the Provident Funds Act 1925 applies or which is a recognised provident fund under the Income-tax Act is not to be included in the net wealth of the employee concerned. The sum 'standing to the credit' ordinarily consists of (1) the employee's own contribution, (2) employer's contribution and (3) accumulated interest thereon. The expressions 'an assessee being a salaried employee' and 'in any provident fund maintained by his employer' connote that the assessee whose provident fund moneys are exempt is one who is presently serving as an employee.

When Exemption not Available

The exemption would be lost if the amount is drawn from the fund though the employee continues to serve since the amount would then cease to stand to his credit. Similarly the exemption would be lost if the employee ceases to serve the employer though the amount stands to his credit since he would not be a 'salaried employee' of the employer.

investments Exempt from Wealth-tax

The Wealth-tax is not payable by the assessee if the investments are made in the following assets, which are not includible in the net wealth of the assessee :

(i) deposits under any scheme framed by the Central Government and notified by it in this behalf in the Official Gazette, to the extent to which the amounts of such deposits do not exceed the maximum amount permitted to be deposited therein;

(ii) Ten Year Treasury Savings Deposit Certificates, Fifteen Year Annuity Certificates, Deposits in Post Office Savings Bank, Post Office Cash Certificates, Post Office National Savings Certificates, Post Office National Plan Certificates and Twelve Year National Plan Savings Certificates, Ten Year Defence Deposit Certificates and Twelve Year National Defence Certificates to the extent to which the amount of such certificates or deposits does not exceed in each case the maximum amount permitted to be invested or deposited therein;

(iii) 6½ per cent Gold Bonds 1977 and 7 per cent Gold Bonds 1980 and National Defence Gold Bonds 1980;

(iv) any security of the Central Government or a State Government (not being a security referred to in (ii) and/or (iii));

(v) any shares held by the assessee in any Indian company where the assessee is an individual or a Hindu undivided family;

(vi) such debentures, issued by any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank) or any other institution or authority, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(vii) Units of the Unit Trust of India established under the Unit Trust of India Act, 1963;

(viii) any deposits with a banking company to which the Banking Regulation Act 1949 applies (including any bank or banking institution referred to in Section 51 of that Act) or with a co-operative society engaged in carrying on

the business of banking (including a co-operative land mortgage bank or a co-operative land development bank);

(ix) any deposits with a financial corporation which is engaged in providing long-term finance for industrial development in India and which is approved by the Central Government for the purposes of clause (viii) of Sub-Section (1) of Section 36 of the Income-tax Act.

(x) any shares held by the assessee in any co-operative society;

(xi) any deposits with a co-operative society, not being deposits referred to in (viii) or (xii) made by a member of the society;

(xii) any deposits with a co-operative housing society made by a member of the society to whom a building or a part thereof is allotted or leased under a house building scheme of the society, where such deposits have been made under such scheme.

The exemption that an assessee can claim in respect of assets mentioned in (i) (ii) (iv) and (v) to (xi) is limited to the extent of Rs. 1.50 lakhs only, in aggregate.

Where the value of deposits under any scheme framed by the Central Government, deposits in Post Office Savings Bank [other than deposits under the Post Office Savings Bank (cumulative time deposits) Rules 1959], and securities referred to in (ii) held by any assessee exceeds Rs. 1,50,000 as on the 28th February 1970, the exemption will be available in respect of such assets so long as they continue to be held by the assessee, notwithstanding that their value exceeds the limit of Rs. 1,50,000.

The exemption of Rs. 1,50,000 in respect of the assets mentioned above will not be available to the assessee unless such assets are held by him for at least six months prior to the valuation date.

Life Insurance Policy

The right or interest of the assessee in any policy of insurance before the moneys covered by the policy become

due and payable to the assessee will not be included in the net wealth of the assessee. But if a loan is raised on the security of life insurance policy and utilised for acquiring an asset then the above exemption from wealth-tax will not be available to such an asset.

Basic Exemption

With effect from April 1, 1972 (Assessment year 1972-73), in the case of an individual, once the net wealth exceeds the limit of Rs. 1,00,000, the assessee will not be eligible for the basic exemption and the entire net wealth will be charged to tax.

(Concluded)

(Shri S. R. Darekar is the Officer-in-Charge of the Income and Wealth Tax Section, Securities Department, at the Bank's Bombay Main Branch.)

Confirming Export Credits

S. B. Dingare

The considerations which make it desirable for an exporter to have a letter of credit, opened in his favour, by a foreign bank, confirmed by an Indian bank and the criteria which the bank would adopt in deciding upon the question, are matters of vital importance. Having made a large investment in the manufacturing programme for executing the export order, the exporter would naturally like to protect himself from a situation in which, after making the shipment, he finds himself in possession of documents, which no bank is prepared to negotiate. Such a situation will not arise if the credit has been confirmed by a reputed bank in India.

While the letter of credit advised through an Indian bank confers certain rights upon its beneficiary, the advising bank does not thereby undertake to negotiate bills tendered under the credit. The letter of credit is advised through an Indian bank merely to convey its authenticity to the beneficiary as also to facilitate negotiation if the advising bank is prepared to negotiate. The option to negotiate belongs as much to the advising bank as it does to any other bank

to whom the documents may be presented. But once a credit is confirmed, this option is taken away. The confirming bank must now take up the documents when presented if they are in conformity with the terms of the credit. It is not then open to it to say, in times of uncertainty, "this credit is the opening bank's promise, not mine". In the case of any grievance, the remedy is at hand.

In confirming a credit, it is only natural that the bank would endeavour to safeguard its own interests. An advising bank is generally asked to add confirmation to credits opened by a small bank or a bank in an under-developed country. The question which the confirming bank would ask itself before proceeding to confirm a credit is whether the financial infra-structure of the opening bank — its capital, reserves, etc., — and the scale of its operations as indicated by its deposits, advances, etc., disclose a sound financial position. If they do, is the credit of an amount which is compatible with these factors? Have the past dealings with the opening bank been entirely satisfactory? If the answers to these questions are all in the affirmative, they go to establish the bank's good standing, and confirmation may be added to the credit.

Another case in which an exporter may require a credit to be confirmed by an Indian bank occurs when the export is being made to a country with an adverse balance of payments and a remittance to meet a reimbursement claim in the free currency, in which the letter of credit has been issued, may not be immediately possible. What should be the attitude of the bank in such a situation? Should the risks involved act as a total deterrent against confirmation? Or, is there a way out which will ensure that the exporter receives the amount of the bill immediately and which will simultaneously afford the confirming bank adequate protection against loss? There are certain countries which offer an excellent market for some of our products but present difficulties of this nature. Not to negotiate or confirm such credits without further thought positively discourages exports. To encourage banks to

confirm such credits, the Export Credit and Guarantee Corporation has introduced a guarantee known as the Transfer Guarantee. The object of introducing the guarantee is to afford protection to the confirming banks in respect of credits opened by foreign banks, particularly from politically unstable countries or those with adverse balance of payments. The guarantee is in the nature of a specific guarantee issued in respect of individual letters of credit. The guarantee is of two types :

- (i) Transfer Guarantee (Comprehensive Risks) and
- (ii) Transfer Guarantee (Political Risks)

The first type of guarantee covers both commercial and political risks, whereas the second covers only political risks. Commercial risks include insolvency of the opening bank as well as its failure to make payment according to the tenor of bills negotiated. Political risks include war between India and the country in which the opening bank is situated, or civil war, rebellion and other kinds of political instability. The E.C.G.C. makes good 75 per cent of the loss on account of commercial risks and 90 per cent on account of political risks. The guarantee marks a step forward in India's export drive and fulfils a long-felt need of the confirming banks. In practice, the bank would mostly obtain Transfer Guarantee (Political Risks). The Comprehensive Risks Guarantee is not likely to be of much attraction to the bank. In respect of commercial risks, the bank would prefer to exercise its own judgment and would not like to add confirmation to letters of credit opened by banks whose standing is not particularly good, merely on the strength of the comprehensive risks cover offered by the Export Credit and Guarantee Corporation.

An interesting question concerns credits opened in a foreign currency. Confirming such credits imposes upon the bank an obligation to negotiate bills drawn thereunder. The exporter may, however, instead of seeking confirmation of the credit, ask the bank to book a forward purchase contract. This also places the bank under a contractual obligation. What is the difference between the two? The

first thing to be noted is that the negotiation of an export bill and the payment in Indian rupees to the exporter are two things, separate and distinct from each other. The negotiation of a bill merely means that the bank has become a holder of the bill for value. This is all that is undertaken when a credit is confirmed. The term confirmation does not imply that the exporter has to be paid in Indian rupees. In itself, confirmation requires that the bank pays the exporter the amount of the bill, whatever its currency, once the bill conforms to the terms of the credit. If there were no exchange control and if foreign currency accounts could be freely opened, it would be a sufficient discharge of the confirming bank's obligation if it credits the amount of the bill to the exporter's account in the concerned currency. The exporter could insist upon such disposal of the bill. Both the exporter and the bank, however, work within the framework of the exchange control regulations and as such, have to accept the restrictions it imposes. The exchange control prohibits practically everybody from maintaining foreign currency accounts. It also requires all those earning exchange (this includes exporters) to surrender it to authorised dealers. When exchange markets are marked by uncertainty or instability, can a bank decline negotiation of a bill tendered under a credit it has confirmed? It can. It has only guaranteed to become its holder for value. The conversion into rupees is not included in confirmation. The bank is only bound to purchase the bill, not the currency. This must wait till the time markets return to normal. In practice though, it is likely to negotiate the bill at a provisional rate subject to adjustments later. If, on the other hand, the bill is tendered as a delivery under a contract, instability of the market does not present difficulty as the transaction is already "covered". The forward contract is a protection against adverse changes in exchange rates and not an insurance against default in payment. A confirmation, on the other hand, acts as a cover against both commercial and political risks having a bearing upon the transaction, though not as a cover against exchange risks which a contract alone can afford.

Equally important is the question whether the booking of a forward contract against an unconfirmed credit binds the bank to negotiate bills under the credit. It is to be remembered here that in booking a forward contract the bank does not surrender its right of deciding which bill it considers as falling in the category of "approved" bills. The decision as to what is an approved bill lies solely with the negotiating bank. The discretion of deciding whether a bill is an approved bill is available to the bank even in cases where a contract has been booked. By tendering a bill under an unconfirmed credit but under a contract booked on the strength of the credit, the exporter cannot compel the bank to negotiate bills under the credit if, in the bank's opinion, supervening circumstances have rendered negotiation inexpedient. It may be argued that in accepting the credit as the foundation of the contract the bank has committed itself to negotiate bills thereunder. The fallacy lies in supposing that the credit is "founded" upon the contract. The contract merely refers to the credit and the reference only shows that the exchange control requirement regarding verification of the existence of trade transaction has been duly observed. Thus the bank's obligations under a forward contract are limited as compared to those under a confirmed credit.

Our major export markets for non-traditional goods still lie in under-developed and developing countries. Also, the growth potential in these countries is marked. The exchange position of many of these countries is weak. It is credits originating in these countries which offer much of the confirmation business. The job requires careful handling because a poor confirmation wipes out earnings from many good ones. On the other hand, a well-conceived confirmation would provide a much-needed facility to exporters in developing new markets, without imposing an undue burden on the confirming banks.

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Current Topics

Report of the Banking Commission A Summary-Part I

The Banking Commission, which was appointed by the Government in February 1969 to study all important aspects of the working of the banking and credit institutions in India, submitted its report on February 9, 1972. Some important recommendations of the Commission are summarised below :

INSTITUTIONAL FRAMEWORK

Rural Banks

For the development of banking in rural areas, the Commission has recommended the establishment of 'rural banks'. Rural banks would be essentially co-operative in character and would provide services of a much wider range than are now offered by primary agricultural credit co-operatives. Besides performing normal banking business like mobilising local savings and meeting the credit needs of all medium and small cultivators, a rural bank, in the long run, would take up the task of implementing programmes of supervised credit, providing ancillary banking services, setting up and maintaining godowns, supply-

ing inputs and agricultural equipment, providing assistance in marketing and generally assisting in the overall development of villages in its area. To facilitate the creation of a rural banking framework, the Commission has suggested that where primary co-operative credit societies are reasonably well-managed and efficient, they should assume the role of rural banks within the co-operative structure. The facilities of such rural co-operative banks should be made available not only to shareholders but also to new class of members called associate members enjoying the rights of borrowing, though not of voting.

In the cases where viable or potentially viable primary credit societies are not available, the Commission feels it desirable to bring into existence 'rural banks' as distinct entities to be set up as subsidiaries of commercial banks. To encourage local involvement, where a commercial bank sets up a rural subsidiary bank, the sponsoring bank should invite the residents of the area to take up to 49 per cent of the share capital of the subsidiary.

To begin with, the priority for conversion into rural banks should be given to the well-run primary agricultural credit societies. In those cases where commercial banks have to take up the responsibility of setting up rural subsidiary banks on their own, the Commission has recommended that the scheme may be tried on experimental basis for a period of five years and establish rural subsidiaries in some of their lead districts. Agriculturally advanced districts with rich deposit potential should be given priority in the selection of areas for the implementation of this scheme.

The Commission has recommended that it will be the responsibility of the Reserve Bank to ensure that the scheme of rural banks is implemented properly. The Reserve Bank will also have to co-ordinate the rural bank programme of commercial and co-operative banks and formulate suitable guidelines for their working.

Reorganisation of the Co-operative Structure

The Commission has recommended that steps should be taken to reorganise the co-operative structure wherever the central banks are weak. In States where all the district central banks are weak, the structure may be reorganised so as to have only branches of the apex banks. In States where the majority of district co-operative banks are strong, the Commission would not like to disturb the existing structure. District central banks, which are relatively strong, should be given a chance to be included among "scheduled banks". In the opinion of the Commission, there is no case for setting up of a national co-operative bank. The task of ensuring proper utilisation of resources of co-operative and commercial banks for meeting agricultural credit needs may be looked after by the Agricultural Credit Board of the Reserve Bank.

Co-ordination between Co-operative and Commercial Banks

The emphasis of the Commission on rural banks is not intended to rule out other methods of extending credit facilities in the countryside through commercial banks. According to the Commission, in the present context, it is necessary to try out various alternatives to assess their suitability for a given area. In areas where co-operatives have failed to make development loans but are in a position to make short-term loans, commercial banks should confine their lending to development purposes by entering into suitable arrangements with co-operatives. Co-ordination between concerned co-operatives and commercial banks is necessary to ensure that total finance provided is adequate and properly used. The Commission has recommended formation of a regular machinery at the district level in all States consisting of representatives of lending agencies as members and the senior most officer of the State Government in charge of the development of the district as chairman. Co-ordination should help exchange of information on subjects of mutual interest among co-operative and commercial banks. Credit planning should form an integral part of district planning and the district authorities should

be in charge of district planning. Banks should help in the preparation of a district credit plan.

Urban Co-operatives

Urban co-operative banks do useful work in mobilising deposits and financing small borrowers. The establishment of urban co-operative banks should be encouraged by according the status of scheduled banks to well managed urban co-operatives and asking the major commercial banks to give non-scheduled urban co-operative banks free remittance facilities and borrowing facilities on reasonable terms.

Specialised Banking Institutions

The Commission has not favoured the idea of setting up specialised banking institutions like an 'Export Import Bank' or a 'Bank for financing small industries and small borrowers' or a specialised savings bank. It has, however, recommended the creation of a two-tier organisation for providing finance for housing with an apex institution at the national level and local housing finance institutions at the district or regional level. The institution at the base level should be sponsored by the local community with the active encouragement of the apex institution. The primary function of local institutions should be to attract savings linked to provision of credit for construction or purchase of houses and that of apex institution should be to encourage, supervise and provide temporary finance to local institutions. The Housing and Urban Development Corporation may be vested with the functions of the central institution, if it sheds its existing non-financial activity. Otherwise, the central agency should be sponsored by the Reserve Bank, which may create a special housing fund to assist the proposed housing finance system. An apex co-operative housing finance society should be set up in each State to re-finance affiliated primary societies. Commercial banks may give short and medium-term credit to the builders to enable them to undertake mass housing construction programmes.

Need for Merchant Banking Institutions

The Commission has felt the need for setting up of merchant banking institutions to offer services like syndication of financing, promotion of projects, investment management and advisory services to medium and small savers and to provident funds and trusts of various types. Initially there could be four merchant banking institutions located at Calcutta, Bombay, Madras and New Delhi set up by commercial banks and specialised financial institutions. These merchant banking institutions can later set up branches at other important centres.

Non-banking Financial Intermediaries (NBFIs)

To safeguard the interests of depositors as also to ensure that the operations of non-banking financial institutions do not weaken the effectiveness of the monetary policy, the Commission has suggested a number of measures to regulate their working. The NBFIs may be given inducements to form themselves into corporate bodies. They should be classified into two categories, viz., approved and non-approved in accordance with their conforming certain prescribed requirements regarding size of capital and reserves, level of liquidity ratio, quality of management, etc. Approved institutions may be accorded a favourable treatment such as refinance facilities from banks, credit guarantee, etc. Hire-purchase finance institutions should be licensed compulsorily and the licensing authority may be given power to revoke licences where warranted. The Commission has suggested that leading commercial banks should form a few hire-purchase finance companies in participation and acting together particularly in the Eastern region where this form of credit is not institutionalised. Regarding chit funds, in view of their indigenous origin and increasing popularity, the Commission feels that their removal without offering alternative schemes will create a gap. The Commission has, therefore, advocated for their regulation by having unified chit fund legislation for the whole country and opined that only public limited companies

should be allowed to run chit funds. Para-banking institutions like finance corporations accept deposits from public and make loan and advances. The Commission has recommended that their activities should be regulated on the same lines as in the case of commercial banks. Financial institutions and deposit receiving institutions may be regulated by an independent agency comprising separate licensing/regulating authorities at the State level with an apex body at the all-India level. Alternatively, the Reserve Bank of India can be entrusted with the responsibility.

Indigenous Bankers

On indigenous bankers, the Commission has stressed more on how best to institutionalise their operations, thereby extending the area of operations of the organised financial system and harnessing extra resources for meeting the credit needs of small borrowers. The recommendations put forth aim at introducing a certain measure of financial and social discipline into the activities of these bankers. The best way to control the business of indigenous bankers, according to the Commission, would be through commercial banks. The control can be effected by enforcing on them certain minimum requirements to be observed in order to qualify for rediscounting facilities with commercial banks. This may partake the nature of keeping off any trading activity, putting in 'own' capital of not less than Rs. 1 lakh, maintaining regular books of accounts, furnishing statement of business in prescribed form annually to the Reserve Bank, etc. The Reserve Bank should exercise indirect control through commercial banks by laying down guidelines for their dealings with indigenous bankers. There should be a code of conduct for them and they should be encouraged to get incorporated.

Restructuring of Public Sector Banks

The Commission has made important recommendations on the restructuring of the banks in the public sector. In this regard, the Commission has not favoured restructuring

of the banks on functional lines as that would involve drastic changes in institutional structure. Instead, it has recommended that nationalised banks should be reorganised soon into two or three all-India banks and five or six other banks, each specialising in developing banking services in a broad region. The Commission's recommendations on restructuring the banks in the public sector are based on cost considerations. The Commission has found that for widening the range of services as well as for effective implementation of the country's monetary and credit policy, there is need for relatively large size of banks. Despite these advantages, however, the Commission does not think it desirable to amalgamate all the banks in the public sector into a monolithic organisation as it would pose formidable problems of integration. The Commission has indicated that while restructuring the banks, care should be taken to see that a fair portion of well developed areas and backward areas are allotted amongst the constituent units. As far as possible, units should be compact ones operating over areas that are geographically contiguous. The Commission has observed that the present structure of the State Bank and a couple of other banks, having a fairly large network of branches all over the country, should not be disturbed. The organisational set-up of the restructured commercial banks should aim at decentralisation of work at branch offices depending on the size to give the Branch Manager sufficient time to devote attention to planning, co-ordination, control, etc., setting up zonal offices for control and guidance of 200-300 branches, delegation of discretionary power to Zonal and Divisional Managers, formation of areas for purposes of collection and processing of statistical data, etc. The Head Offices should undertake planning and budgeting work for the bank as a whole.

The all-India banks should aim at having branches at the level of district towns and above. The other banks, each one of which can work over the areas of 2 or 3 neighbouring States, should have branch network below the levels of district towns in the areas of operation of the concern-

ed State. In the metropolitan towns, both all-India and the regional banks should be allowed to open branches so that every bank can have a reasonable share of the business in these centres. With a view to co-ordinating the regular banking activities, the Commission has suggested the formation of a Standing Committee of the Chairmen of the reorganised public sector banks. The Committee will deal with inter-bank problems and supervise and control the lead bank scheme. The Commission's suggestion in regard to Indian commercial banks in the private sector is that there should be a time bound programme for merger or amalgamation of those whose performance has not been satisfactory. Foreign banks, in view of their limited geographical and functional spread, may be allowed to continue as at present.

(To be concluded)

Legal Decisions

On Banking

Postal Receipt—Presumption Regarding Receipt of Registered Letter

Ayisabeevi and Another

vs.

Aboobacker

AIR 1971 Kerala 231

Contributed by N. K. Randeria

The question which arose for consideration in this revision was whether a postal receipt in proof of despatch of a registered notice would raise a presumption that the notice reached the destination. Briefly stated, the facts were that a landlord had sent a notice to quit to his tenant, who was in occupation of the property under a lease from month to month. Under Section 106 of the Transfer of Property Act, in the absence of a contract or local law or usage to the contrary, such a lease was determinable by 15 days' notice expiring with the end of the month of tenancy. The notice was sent by the landlord on the 11th February 1961, and would normally have reached the tenant on the third day, and the 15th day calculated from that day was the 28th of February, which was the last day of the month.

The Kerala High Court quoted with approval a passage from Woodroff's Ameer Ali's Law of Evidence, 11th Edition, Volume 3, page 2248, reading thus: "If a letter properly directed, containing a notice to quit, is proved to have been put into the post office, it is presumed that the letter reached its destination at the proper time according to the regular course of business of the post office, and was received by the person to whom it was addressed. The posting in due course of a letter raises a presumption that it has reached the addressee. A post office seal on an envelope, which has been posted, may be presumed to be genuine, at any rate where its genuineness is not expressly questioned. If the postmark be taken as genuine, it is evidence that the cover bearing it was stamped on the date the impression bears. The postmark is evidence that the place or office mentioned therein was actually the place where it was affixed. The presumption is that the notice was served at the time when it would be delivered in the ordinary course of post. The High Court, therefore, felt that on the strength of the postal receipt the landlord should get the benefit of the presumption both under Section 114 of the Evidence Act and Section 27 of the General Clauses Act, viz., that a notice was posted in the post office and it reached its destination. The High Court declared that a letter correctly addressed and posted, if not received back through the dead letter office, should be presumed to have reached the addressee. The High Court observed that although the postal receipt did not contain the full address of the tenant, the copy of the notice filed along with the postal receipt did show that it was sent to the correct address of the tenant. As the letter was not received back, it must be presumed in the circumstances that it duly reached the tenant and was received by him.

In the result, the revision was allowed.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 28-7-1972	A Month Ago 30-6-1972	A Year Ago 30-7-1971
State Bank of India			
Aggregate Deposits :	1,708 ·1	1,682 ·0	1,369 ·1
Demand (Exclusive of inter-bank transactions)	778 ·8	771 ·9	622 ·7
Time (-do-)	929 ·3	910 ·1	746 ·4
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,170 ·5	1,274 ·3	1,133 ·4
Investments in Government Securities	544 ·9	460 ·0	342 ·4
Subsidiary Banks			
Aggregate Deposits :	444 ·1	444 ·3	381 ·9
Demand (Exclusive of inter-bank transactions)	184 ·2	186 ·1	157 ·9
Time (-do-)	259 ·9	258 ·2	224 ·0
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	335 ·0	343 ·6	283 ·5
Investments in Government Securities	92 ·5	91 ·0	74 ·8
All Scheduled Commercial Banks			
Aggregate Deposits :	7,616 ·6	7,523 ·5	6,358 ·0
Demand (Exclusive of inter-bank transactions)	3,321 ·6	3,288 ·6	2,761 ·9
Time (-do-)	4,295 ·0	4,234 ·9	3,596 ·1
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,316 ·5	5,377 ·1	4,815 ·7
Investments in Government Securities	1,866 ·1	1,664 ·1	1,421 ·9

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

		Position as at the end of		
		March 1972	Decem- ber 1971	March 1971
State Bank of India				
No. of Offices	...	2,532	2,477	2,189
Finance to Small Scale*				
Industries :				
No. of Units Assisted		39,299	38,489	35,118
Limits Sanctioned	...	271.76	262.12	243.40
Outstandings	...	184.24	176.88	157.87
Direct Finance for				
Agriculture :				
No. of Accounts	...	1,85,095	1,93,852	2,12,247
Limits Sanctioned	...	64.57	68.91	71.33
Outstandings	...	44.31	47.70	50.26
Indirect Finance for				
Agriculture :				
No. of Accounts	...	906	920	1,029
Limits Sanctioned	...	94.51	96.78	164.76
Outstandings	...	34.63	41.07	62.09
Export Finance :				
Outstandings	...	118.13	108.05	97.85
Subsidiary Banks				
No. of Offices	...	1,357	1,304	1,192
Finance to Small Scale*				
Industries :				
No. of Units Assisted		20,310	19,650	17,769
Limits Sanctioned	...	96.57	90.35	88.47
Outstandings	...	56.96	50.19	46.96
Direct Finance for				
Agriculture :				
No. of Accounts	...	63,066	65,414	66,424
Limits Sanctioned	...	31.13	31.97	33.77
Outstandings	...	19.40	21.15	21.75
Indirect Finance for				
Agriculture :				
No. of Accounts	...	861	801	653
Limits Sanctioned	...	16.97	16.62	25.04
Outstandings	...	7.19	6.97	8.87
Export Finance :				
Outstandings	...	15.11	14.03	12.62

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 28-7-1972	A Month Ago 30-6-1972	A year Ago 30-7-1971
(Amounts in rupees crores)			
1. Money Supply with the Public ...	8,324	8,478	7,332
(a) Currency with the public ...	4,853	5,014	4,454
(b) Deposit money with the public	3,471	3,464	2,878
	May 1972	April 1972	May 1971
2. Foreign Exchange Reserves ...	854.8	854.6	789.5
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	$8\frac{1}{2}$	$8\frac{1}{2}$	$8\frac{1}{2}$
(c) State Bank of India Hundi Rate ...	$8\frac{3}{4}$ - $10\frac{1}{2}$	$8\frac{3}{4}$ - $10\frac{1}{2}$	$8\frac{3}{4}$ - $10\frac{1}{2}$
(d) Call Money Rate (Bombay) ...	4.2	5.0	5.1
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

	November 1971	October 1971	November 1970
4. Index Number of Industrial Production (1960=100)			
General Index ... (Adjusted)	191.3	190.1	183.8
	Week ended 29-7-1972	Week ended 24-6-1972	Week ended 31-7-1971
5. Index Numbers of Wholesale Prices (1961-62=100)			
All Commodities ...	205.7	198.8	189.2
Food Articles	241.6	229.4	211.5
Liquor and Tobacco	230.0	215.5	188.9
Fuel, Power, Light and Lubricants ...	177.2	177.1	172.9
Industrial Raw Materials ...	193.5	184.2	198.9
Chemicals ...	198.3	200.5	198.1
Machinery and Transport Equipment	166.8	165.9	158.2
Manufactures ...	174.8	173.7	165.3
	April 1972	March 1972	April 1971
6. Consumer Price Index Number for Industrial Workers — All-India (1960=100)	195	194	184
7. Foreign Trade	February 1972	January 1972	February 1971
	(Rupees in crores)		
Total Imports ...	152.1	177.8	134.3
Total Exports (including re-exports) ...	134.9	143.4	102.4

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Commercial and Co-operative Banking: Complementarity and Competition *

A. Bose

The circumstances in which commercial banks were required to enter the field of agricultural credit are well known. The intensive agricultural development programmes that were implemented in the various parts of the country stepped up the demand for agricultural credit considerably in the recent years. The All-India Rural Credit Review Committee (1969) estimated the demand for short-term agricultural credit at about Rs. 2,000 crores by the end of the Fourth Five Year Plan and that for medium and long-term credit at Rs. 2,000 crores during the Fourth Plan period.

Until recently, supply of credit to farmers had been the exclusive preserve of co-operatives, except for some taccavi loans granted by the State Governments and plantation loans by commercial banks. The short-term credit provided by co-operatives increased from Rs. 342 crores in 1965-66 to over Rs. 600 crores in 1970-71 and is

* Paper presented at the seminar organised by the Institute of Economic Growth, University of Delhi from the 23rd to the 25th August 1972 on 'Various Aspects of Commercial Banking'.

expected to be around Rs. 680 crores by 1973-74. Long-term loans granted by co-operative land development banks increased from Rs. 58 crores in 1965-66 to Rs. 160 crores in 1970-71 and it was expected that this figure would be around Rs. 700 crores during the Fourth Plan period. Despite this increase — a substantial increase indeed — in the credit portfolio of co-operatives, it was obvious that there would be a large gap in the demand for agricultural credit and its supply by co-operative agencies. While it was recognised that, by and large, co-operatives would continue to be the most important institutional agency in the field of agricultural credit, it was considered difficult for them to expand their operations commensurate with the rapidly increasing needs of agriculture. Accordingly, it was felt that to ensure that agricultural production did not suffer, an effective participation of other institutional agencies was necessary and perhaps unavoidable. The age-old concept of keeping the agricultural financing as the close preserve of co-operatives had to be modified to suit the changing needs of the agricultural sector and a 'multi-agency' approach had to be accepted to tackle the potential demand for credit in this field. It was at this stage that the entry of commercial banks, with enormous resources at their command and the growing net-work of their offices in rural areas, into the field of agricultural financing was considered not only desirable but necessary if the country had to achieve a major break through in agricultural production. Another argument, which was also put forward in justification of commercial banks' undertaking farm lending operations, was to ensure an equitable and purposeful distribution of their resources through diversion of a portion of bank credit to the priority sectors, and also to the rural areas which contributed a substantial portion of deposits of commercial banks.

In 1968, the National Credit Council, while indicating broadly the field of assistance by commercial banks to the agricultural sector, expressed the view that the role of co-operatives and commercial banks was not competitive

but complementary. It was felt that commercial banks should not only supplement the activities of the co-operative sector, but also support and strengthen such activities. It was against this background that the National Level Consultative Committee for co-ordination between co-operatives and commercial banks was formed. The broad guidelines, which were formulated by the Committee, were as under :

- (a) There should be no competition between the co-operative and commercial banking sectors.
- (b) There should not be any ban or restriction placed on either of the two sectors operating in any particular area or field activity.
- (c) The co-operatives should not be weakened by the operations of commercial banks; on the other hand, they should lead to the strengthening of co-operative institutions.
- (d) As regards direct lending to the farmers at the village level, there should be co-ordination between co-operatives and commercial banks to avoid the possibility of an individual farmer being financed by both the institutions for the same purpose.
- (e) Commercial banks should concentrate mainly on financing the creation of the infrastructure for agricultural development.

The All India State Co-operative Banks' Federation at its Board meeting held on April 14, 1968 endorsed the above views and concluded that there was scope for both the agencies to operate provided their activities were well co-ordinated on the basis of mutual understanding.

Except for gold loans and a few sporadic agricultural advances, mostly to large farmers, the real beginning in agricultural financing by commercial banks can be said to have been made in 1968. The National Credit Council had assigned a target of Rs. 35-40 crores to com-

mercial banks in the field of agricultural finance for the year 1968-69 (July to June). Commercial banks' advances to agriculture increased from Rs. 44.56 crores in June 1968 to Rs. 188.38 crores in June 1969, thus exceeding the target by about 300 per cent. The June 1969 figure comprised Rs. 53.59 crores by way of indirect advances. Of the total increase aggregating Rs. 143.82 crores, the contribution of the State Bank Group alone was Rs. 72.65 crores or 51 per cent. Subsequent years witnessed a further increase in commercial banks' advances to agriculture, which went up from Rs. 188.38 crores in June 1969 to Rs. 341.77 crores in June 1970 and stood at Rs. 393.62 crores in December 1971. In all these years, endeavours of commercial banks were directed towards supplementing the efforts of co-operatives in bridging the gap in agricultural credit, and in view of the widening of the gap every year with the ever increasing demand for agricultural credit, there was ample scope for both the sectors to operate concurrently.

With all the endeavours being made at the national level to co-ordinate the activities of commercial banks and co-operatives in the field of agricultural credit, it would be interesting to make the following studies :

- (a) To what extent was the spirit of co-ordination or complementarity practised at the field level?
- (b) What were the areas of conflict and what measures have so far been adopted to avoid such conflicts?
- (c) What were the further innovations in farm lending practices introduced to bring commercial banks and co-operatives closer, thereby enabling them to function as a well-knit family?

It is somewhat true that in the first flush of enthusiasm, commercial banks went all-out to expand their agricultural credit portfolio and the means adopted by some of them were admittedly not beyond question. Absence of a well-defined strategy in respect of farm lending operations tempted the branch managers of different commercial

banks to indulge in unhealthy competition not only amongst themselves but also with co-operatives in certain areas where the latter were particularly strong. In those States particularly in the Western and Southern India where co-operatives were better organised and had no constraints of resources, the farmer had to make a choice between the two sectors for obtaining finance and sometimes his preference worked out in favour of commercial banks due to a number of factors, viz., the promptness with which commercial banks were disposing of the applications, their offer to meet all his credit needs including those for minor irrigation, land development, etc., a sense of elevation in having been able to enter the portals of a bank and open an account, the procedural simplicity, and lastly in some cases a lower rate of interest offered by some banks. There were a few complaints from the co-operative sector of its farmer-members having been weaned away by commercial banks.

While a view was expressed that some element of competition was necessary to tone up the administration of co-operatives, the competition was not always a healthy one and corrective measures had to be adopted to stop the escalation of undesirable practices which crept up and to ensure that commercial banks functioned in the rural areas in a manner which would contribute to a strengthening rather than a weakening of the co-operative sector.

It would be relevant to mention some of the features which were noticed in the wake of commercial banks' entry into the field of agricultural financing. It was perhaps the lack of proper understanding between the two sectors in the initial stages that led in some cases to the same cultivators being financed by both the agencies for the same purpose and this resulted in over-financing/dual-financing and the consequent default in their payment of the loans granted by one or both the lending agencies. Further, in such an eventuality, co-operatives, because of the special privileges enjoyed by them under the Co-operative

Societies Act, had an upper hand vis-a-vis commercial banks. To cite another instance, commercial banks and co-operative lending agencies embarked upon massive minor irrigation schemes without taking into consideration the groundwater potential of the areas selected by them and also the schemes undertaken by the other institutions with the result that there was not only an imminent danger of overexploitation of the available groundwater potential but also the failure of some of the schemes, resulting in non-realisation of loans.

All these necessitated a planned and co-ordinated approach in the field of agricultural finance not only to ensure that the quality of lending was good but also to see that commercial banks really played a role complementary to that of co-operatives and there was no scope for any unhealthy competition between these two sectors. Each sector had to review its own strategy.

The State Bank of India, which had, in fact, been associated with the financing of the co-operative sector since the fifties, was aware of the urgent need for evolving a policy of agricultural finance, which would, on the one hand, ensure non-interference with the co-operative financing structure and on the other, create conditions for the Bank to function as a supplementary financing agency in the field of agricultural credit. I would briefly mention the various steps that were taken by the State Bank for the fulfilment of the above objectives and which in the following years set a pattern for the working of other commercial banks in this field :

- (i) In 1969, the State Bank decided to adopt the 'Village Adoption Approach', which was essentially an extension of the idea of 'Area Approach' and had been found, on experience, to be the most useful strategy in the financing of agriculture, more particularly for the benefit of small farmers. The villages selected are ordinarily those in which co-operative credit institutions have not made

much headway. The Bank invariably obtains clearance from the Agriculture and Co-operative Departments of the State Government concerned before selecting villages for adoption for the purpose of agricultural financing. In the villages adopted, efforts are made to assist all viable and potentially viable farmers, irrespective of their land holdings, for all their requirements for agricultural development. The greatest advantage of the Village Adoption Approach lies not only in engaging the Bank's limited manpower resources for achieving the maximum possible results while keeping the administrative expenses involved in the follow-up and supervision at a lower level, but also in co-ordinating its efforts more effectively with those of other financing agencies by demarcating the respective zones of operations and in working out an appropriate division of labour with other agencies, particularly with co-operatives, in order to avoid any duplication or wastage of efforts.

- (ii) The State Bank's interest rate structure for agricultural advances was suitably revised to ensure that the Bank's interest rate was generally 1 per cent higher than the rate charged by co-operative lending agencies locally on similar advances.
- (iii) Even in the selected areas/adopted villages, a reference is generally made to the concerned primary co-operative/land development bank, for the issue of a 'No objection and No Dues' certificate in respect of the farmers approaching the Bank for loans.
- (iv) Circle Co-ordination Committees have been set up at the Local Head Offices of the Bank. These Committees include the representatives of the co-operative banks, besides the Registrars of Co-operative Societies, and the local representatives

of the Agricultural Refinance Corporation, Reserve Bank of India and the officials of the Agricultural Department of the concerned State Government. The meetings of these Committees are generally held twice a year to sort out difficulties, if any, experienced at the operating level and to discuss matters of mutual interest.

- (v) The Bank is also represented in the various State-level Committees set up from time to time to co-ordinate the functions and the working of the various agencies (including commercial banks and co-operatives) in the field of agricultural credit.

Efforts also continue to be made by the Reserve Bank of India, the Central Government, the State Governments, co-operative lending agencies and other financial institutions to bring about a more co-ordinated approach by the two sectors towards the problem of agricultural credit. Besides the National Level Co-ordination Committee, almost all the State Governments have appointed a very senior officer in the Agriculture Department as a Special Officer in charge of institutional credit to ensure that financial assistance to the agricultural sector is made available by both commercial banks and co-operatives in a planned and systematic manner and there is no functional overlapping in this regard. State and District Level Consultative Committees have also been formed in a number of places to provide for a continuous dialogue between commercial banks and co-operative financing agencies to identify territorial and functional jurisdiction and to sort out difficulties experienced in the day-to-day operations. The co-operative agencies are also taking an active interest in the matter of co-ordinating their activities with those of commercial banks. While officials of the Co-operative Department of the State Governments and various co-operative institutions are periodically deputed to study the lending practices and procedures of commercial banks, Co-operative Training Institutes have not only included

in their curriculum for the various levels of co-operative employees, special studies of commercial banks' farm lending operations, but also invite officials of the Agricultural Credit Department of commercial banks to discuss with them various aspects of policies and procedures followed by the banks to develop a better and closer understanding of the viewpoints of each other.

The efforts made by the Agricultural Refinance Corporation cannot also be ignored. While finalising area development schemes, including agricultural credit projects financed by the International Development Association, the ARC takes into consideration the organisational set-up not only of commercial banks operating in the area but also of the concerned co-operative land mortgage/development bank and allocates the responsibility of executing the project accordingly. Thus, it is ensured that both co-operatives and commercial banks get the opportunity of playing their roles in the best manner possible. In some States, where the co-operative land development banks are financially and organisationally strong, the sole responsibility of financing the projects has been entrusted to them in view of their local character and intimate knowledge of the area.

As a further step towards greater co-operation between commercial banks and co-operatives in the field of agricultural finance, it was felt that commercial banks could make a maximum use, wherever possible, of the wide co-operative network, which enjoys certain locational advantages. With this end in view and also to provide an alternative arrangement to meet the production and medium term credit gaps in agriculture, particularly the gaps that exist in the case of small farmers, the Reserve Bank of India has initiated a scheme of financing by commercial banks of primary agricultural credit societies located in areas (in certain selected States) where the central co-operative banks are organisationally and financially weak. To allay the misgivings that may still persist in the minds of some persons as to the prudence of permitting

commercial banks to finance the primary agricultural credit societies direct and to infringe the three-tier co-operative credit structure, a clear understanding of the objectives of the Scheme, which are given below, is necessary.

- (a) To revitalise the working of the societies ceded to commercial banks so that the former can develop into efficient and viable business organisations. The Scheme places a special responsibility on commercial banks to ensure that this is done.
- (b) To initiate measures simultaneously for rehabilitation of central co-operative banks in the selected districts by strengthening their share capital, improving supervision and other administrative arrangements, and helping them to reduce their overdues.

It is relevant to note that the Scheme has been envisaged as a transitional arrangement, that is, the societies ceded to commercial banks are expected to be transferred back to the respective central banks when they are fully rehabilitated, and the central banks are adequately strengthened to undertake the responsibility themselves.

In order that the Scheme does not adversely affect the interests of the co-operatives, certain conditions were laid down for its operation, as under :

- (a) Commercial banks would charge a slightly higher rate of interest on their loans to societies compared to the rate normally charged by the co-operative banks. Commercial banks at present lend to the societies at $7\frac{1}{2}$ per cent per annum.
- (b) Commercial banks would follow the crop loan system as operated by co-operatives. They would adopt scales of finance crop-wise and give loans in kind and in instalments as laid down in

the Crop Loan Manual. There would, however, be no limits to individual borrowings in the case of members who would be entitled to get finance to the full extent of their needs worked out as per the prescribed norms.

- (c) Commercial banks would provide finance through societies for the purposes for which co-operatives give short and medium-term loans,
- (d) Commercial banks themselves should bear the cost of supervision.

The experience of commercial banks in the working of the scheme in the selected States, although satisfactory on the whole, is by no means uniform. The implementation of the scheme has, however, brought into focus the following new areas of co-ordination between commercial banks and co-operatives, which may be effectively utilised for formulating policies in future :

- (a) Primary credit societies, which had a good record of performance but were unable to provide assistance to their farmer-members due to the financial weakness of their respective central co-operative banks, have been able to turn the corner with the assistance from commercial banks. Similarly, the weak central banks are in a position to operate effectively in the smaller area left to them.
- (b) Financing through primary credit societies could perhaps be the best way of commercial banks' effective participation in the field of agricultural finance because the former have local knowledge and also a foundation at the village level. Commercial banks may also find financing through primary credit societies cheaper and more convenient than undertaking direct financing of a large number of farmers about whom they may have no knowledge.

- (c) The special legal facilities, which co-operatives enjoy in the matter of granting and recovering loans, may also be availed of by commercial banks under this arrangement.
- (d) Co-operative banks and the Government can have a say in lending policies of commercial banks.
- (e) Such of the viable or potentially viable societies as have not been able to get assistance from co-operative banks on account of party factions may be able to obtain financial help from commercial banks.

A study recently conducted by the National Institute of Bank Management in regard to the working of the scheme in the State of Mysore has revealed that within a short period of less than 1-1½ years, commercial banks revived over 400 societies, enrolled over 12,000 new members and opened up lines of credit for crop loans to the extent of Rs. 1-1½ crores. Viewed in the context of the fact that the societies 'taken over' were not only those affiliated to weak central co-operative banks but also included societies which themselves were at a very low level of business and efficiency, the work done by commercial banks has indeed been valuable. The tremendous success in Mysore State can also be attributed to the active co-operation received by commercial banks from the State Government.

The Banking Commission has recommended that where the co-operative credit structure is generally weak, rural banks may be established by making a good primary agricultural credit society to work as a subsidiary of the commercial bank or by the commercial bank setting up its own subsidiary, to provide credit and other banking services to farmers. Similarly, the National Commission on Agriculture has recommended the setting up of Farmers' Service Societies — one for each tehsil/block or any other viable unit of convenient size — to provide credit to small and marginal farmers and agricultural labourers. While both the proposals need to be examined in greater detail from the

implementation point of view, the basic idea behind the establishment of both 'Rural Banks' and 'Farmers Service Societies' is to supplement the efforts of co-operatives in bridging the gap in agricultural credit, to the extent possible, by seeking the participation of commercial banks in the field of **agricultural credit**.

The scheme of new 'central co-operative banks' and 'co-operative agricultural banks' recommended by the 'Study Team on Co-operative Agricultural Credit in West Bengal' appointed by the Reserve Bank of India also envisages participation of commercial banks in the management and share capital of these agencies, while at the same time retaining the co-operative character of the institutions at the village level.

It is certain that due to limited resources — financial and organisational — neither commercial banks nor co-operatives alone can meet the entire credit needs of the agricultural sector in the coming years. We have to admit that co-operatives would continue to play a primary role as they have their roots at the village level and the entire structure is built on the foundation of local leadership, although they might have failed and their performance might not have come up to expectation in some areas. It is, therefore, imperative that systematic attempts should be made to remove the ills from which the co-operatives suffer today and to inject in them the commercial character so that they could become viable business enterprises in the foreseeable future.

I think in this task of revitalisation and rejuvenation of co-operative lending agencies, commercial banks have an important role to play, by working with these bodies hand in hand in the actual field and not trying to eliminate them by offering unhealthy competition. Since the benefit of the farmer is the ultimate goal of both these sectors, I see no reason why it should not be possible for them to co-exist and to co-ordinate their activities in a manner as would ensure the maximum assistance to the farmers in this country.

In the light of the observations in the preceding paragraphs, it would be useful to consider the following important issues for the formulation of future strategies in the field of agricultural finance :

- (i) What should be the role of commercial banks in the field of agricultural credit vis-a-vis co-operative lending agencies? Whether they should play a supplementary role or they should be allowed to compete freely with co-operatives both in regard to the areas of operation and the fields of activity.
- (ii) Is there really a need for co-ordination between the activities of commercial banks and co-operatives? If so, what should be the co-ordination machinery, the levels of co-ordination and the nature of co-ordination? The nature of co-ordination will include (a) measures to ensure that the working of commercial banks does not affect the business of co-operative banks, (b) precautions to be taken to ensure that the concurrent operations of commercial and co-operative banks do not result in dual financing or over-financing of farmers, and (c) measures necessary to avoid wasteful duplication of efforts both in the matter of mobilisation of resources and the financing of agricultural and allied operations.
- (iii) Should commercial banks utilise co-operatives established at the village level for canalising credit to farmers or should they set up an independent machinery of their own at the village level to conduct the farm loaning operations?

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Cost Standards for Banks

A. V. Ramanathan

The Banking Commission has recommended in its report, inter-alia, that

“The MIS should clearly bring out the inter-relationships between the levels of volume of business, costs and related income so that the managerial decision-making leads to improved profitability. For this purpose, the accounting system of banks in India should be re-oriented by the blending of the cost and financial accounting into an integrated system which combines and correlates the collection, analysis, interpretation and reporting on each of the three aspects, viz., the output, cost and income”¹.

Historically, bank accounting records have been maintained primarily to fulfil external requirements rather than to provide management information. Accounting procedures in banks mainly aim at meeting the statutory requirements for disclosure of information in the published annual reports and profit and loss accounts of the bank accurately. As a result, this accounting system merely records expen-

¹ Report of the Banking Commission, Government of India, 1972, page 606—Recommendation No. 169.

ses, income and business according to the requirements or classification of balance sheet and profit and loss account. For example, advances are classified as demand loans, cash credits and overdrafts and not as advances to small scale industries, loans to farmers, etc. Likewise, income and expenses are classified under the head of interest, exchange and commission and charges without reflecting the activity generating the income or expenditure.

In other words, we have been following basically what is known as the Financial Accounting System to be distinguished from the Management Accounting System. "Management Accounting" is described in the Report of the Anglo-American Council of Productivity (1950) as "the presentation of accounting information in such a way as to assist the Management in creation of policy and the day to day operation". In Management Accounting System, the records are maintained so as to provide the management at various levels with such information as would enable them to take proper decision at the appropriate time and exercise proper control over the organisation. The designing of such an accounting system should naturally start with an analysis of the information needed at various levels of management for the purpose of planning and control. This presupposes the existence of a well defined organisational structure and a proper pattern of delegation.

Steps Taken by the State Bank of India

Until recently, no consistent and conscious attempts were made by banks in India to introduce a comprehensive system of accounting, which would serve as management information system to be used by all decision-making levels in the management of the bank. The recent re-organisation of the State Bank of India, which has been introduced recently, is a big step in this direction. It provides the Bank with an organisation consisting of well demarcated responsibility centres consisting of branches, Regional Offices, Local Head Offices and Central Office.

The introduction of budgetary control system in the State Bank is another big stride towards introduction of management accounting. It enables the responsibility centres to steer their course towards budgeted goals by providing necessary information for this purpose. The budgetary system is basically a planning and control device. The element of planning enters into the system at the time of preparing the budgets and the element of 'control' enters at the time of evaluating performance. The control is exercised while comparing the actual performance with the budgeted figures, and while analysing the variances, if any. For the purpose of control, the key figures in the performance report are the figures under the head 'variance'. The effectiveness of control lies in the manner in which these variances are analysed.

The State Bank of India has thus already taken steps to implement the above recommendation of the Banking Commission. The budgetary system as developed by the Bank brings out the inter-relationship between the volume of business and related income very well to enable the management to keep a proper control on both these aspects. Establishing inter-relationship between the costs and the volume of business has not been yet achieved to the full extent.

Cost Standards

For this purpose, it would be necessary to set cost standards for various banking activities so that the standard costs for any given volume of business as budgeted could be computed and compared with the budgeted expenses. Similarly, at the time of evaluating performance reports the standards costs could be computed for the business achieved and compared with the actual cost incurred. Thus standard costs provide the management a useful tool for controlling costs.

A text book definition sums up the concept of standard cost as "a predetermined cost, an explicit statement of what cost should be under the most efficient methods of operation which can be attained and sustained. It is actually the

product of two factors determined separately — quantity and price”.² According to the above definition, a standard cost is the product of two separate factors. The first is the standard which is the physical measurement of the quantity of labour and material required for the operation. To this is applied a standard rate (price) to arrive at the standard cost.

Thus,

$$\text{Standard cost of an operation} = (\text{Standard quantum of material used}) \times (\text{Standard price per unit of material}) + (\text{Standard quantum of man-hours required}) \times (\text{Standard wage rate})$$

In most bank operations, the material cost directly attributable (such as stationery, etc.) is much less than the direct labour cost. Hence, one may first concentrate on assessing standard labour cost only. The standard material cost may, perhaps, be brought into the picture as a refinement at a later stage.

For computing standard labour cost, what is basically needed is to determine time standards for performing the basic activities/operations and standard wage rates for various categories of staff involved in these activities/operations. A variety of techniques have been developed for establishing time requirements for various operations. A brief explanation of the more common ones is as follows :

Time Study : This is one of the original industrial engineering techniques in which the observer records the time required for a given operation by means of stop-watch readings. The time study technician requires a con-

2 “Profitability Accounting for Planning and Control” by Robert Beyer, The Renold Press, New York, 1963, page 101,

siderable amount of training in recording observations from the watch. It is time consuming and often involves the risk of adverse reaction from employees.

Micromotion Film Analysis : This is a technique somewhat similar to time study with the exception that the operation to be timed is filmed with a special camera that operates at a pre-determined speed. This again is quite time consuming.

Methods-time Measurement : In this technique, commonly called M.T.M., the operation is broken down into very small elemental movements such as a reach, a grasp and so forth. Making use of time requirements that have been developed previously for each of these movements, time required for the entire operation can be synthesised. This technique is rather time consuming but when properly applied produces very good results.

Statistical Method—Work Sampling: In this technique, a number of observations of the job are made at random points of time. From the percentage time distribution, the estimated time required to perform various activities can be derived. It is a comparatively rapid method and when properly applied, the results can be quite satisfactory. This technique does not provide the detailed standards available from the techniques described previously and there can be some amount of inefficiency built into the manner in which the work is performed.

Self-logging : In this procedure, employees are asked to record production volumes and the time taken by them to perform various operations. The accuracy of the data, of course, depends upon the care with which the employee records his time. As with work sampling, the standards are quite broad and can have a considerable amount of inefficiency built into them.

Historical Data : Occasionally, standards are developed from historical data. This procedure has little to commend it other than its simplicity.

It will be observed that there are a number of trade-offs in these various techniques in such factors as time requirements, cost, employee disruption and accuracy. There is a considerable variety in bank work and no one technique is appropriate for all tasks. Some operations are highly repetitive, others have a considerable amount of randomness in the manner in which operations are performed. In still others, provision must be made for time spent waiting for customers to arrive. A considerable amount of study is required to choose the appropriate technique for each operation.

Any programme for introducing the first two methods may not work in Indian conditions. Apart from being laborious and time-consuming, these methods may result in possible resistance from the staff union. The M.T.M. methods can be applied effectively to some of the activities which are highly repetitive in nature such as posting of ledgers, writing scrolls, preparing current account statements, jotting down ledger balances, taking summations and so on. Time standards for these activities can be synthesised by repeating these operations under simulated conditions at the O & M Department of Head Office. There would not be any need to carry out studies at branches for this purpose.

The applicability of self-logging method to Indian banks has already been established. In mid-1969 the self-logging method was tested at few branches of the State Bank of India and found to give satisfactory results. The Study Group on Banking Cost appointed by the Banking Commission also employed similar methods for collecting data relating to clerical and official man-hours spent on various banking activities and the results indicate that self-logging method is quite suitable for Indian conditions.

The self-logging method would, however, give time standards only for broad categories of activities. This method may give a combined time standards for all the activities done by one clerk. Such time standards would cover in the case of a ledger keeper the time spent by the

ledger keepers on posting cheques, verifying signatures and endorsements, waiting for customers or at officer's desk, etc. Time standards for preparation of current account statements could, however, be established separately as this work is normally done by a clerk other than the ledger keeper himself. The self-logging method may not give good results when one wants to find out the time standards separately for actual posting of the cheques in the ledgers, or time spent on waiting for the customers or at the officer's desk, etc. For obtaining separate time standards for various components of work done by a clerk, it would be necessary to employ work sampling method. Thus, for computing time standards of banking activities, a proper mix of the three methods viz., M.T.M., work sampling and self-logging should be employed judiciously.

It will be observed from what has been stated earlier, that time standards developed by employing work sampling method or self-logging method may have certain amount of inefficiency built into them. The time standards developed by employing M.T.M. and time study methods are, however, likely to be very tight. As by definition, the standard cost is a cost that can be attained or sustained under most efficient method of operation, it may not be desirable to employ ideal time standards, which may be very tight as it may not be possible for branches to attain and sustain such standards. It is hoped that in course of time, the standards developed by employing work sampling and self-logging techniques will improve because such a study by itself may result in (i) improving the procedures and (ii) reduction of idle man-hours. It must be noted in this connection that time standards developed by this method are to be updated periodically.

Sampling Technique

In M.T.M. technique, the time standards need to be ascertained only once for all branches as it is not likely to change unless procedure is changed considerably. The other two methods, namely, the work sampling and self-

logging, envisage collection of data from representative branches. For selecting these branches, suitable sampling techniques may have to be employed. The "Study Group on Banking Costs" divided the branches into four strata on the basis of population of the centre. The results, however, indicated that this criterion for stratification did not divide the branches into homogeneous groups as expected. An analysis of costs by the Study Group clearly pointed out that the stratification according to size would be more meaningful. For this purpose, size of a branch may be measured by salaries and allowances paid to the staff. Branches may, therefore, be divided into four groups as (i) very large, (ii) large, (iii) medium and (iv) small, on this basis. If necessary, branches may be further sub-divided into four groups according to geographical regions.

Since under work sampling or self-logging method it may not be possible to collect and process data for one year period for the selected branches, data may be collected only for a representative days. The days selected should include Monday, Friday, Saturday and mid-week days. The method employed by the Study Group on Banking Costs for selecting representative days during a quarter was very effective and could be adopted for this purpose.

It may be noted in this connection that obsolete standard costs would constitute the most serious obstacle to the profitable use of standard costs. The conditions on which the standard costs are based might change and as they change, the standard costs must change, if they are to be used effectively. Time standards established by M.T.M. techniques do not need up-dating as long as the procedures followed do not change. The work sampling or the self-logging studies should, however, be carried out periodically and time standards developed must be reviewed. A fresh sample may be taken each quarter and for this review only data which are recently collected, say, relating to the previous three years would be used.

Standard Wage Rates

As stated above, derivation of standard costs requires the multiplication of standard labour time by the related standard wage rates. The salaries of individual employees will vary as a result of length of service, qualifications, etc. Normally, average salary of employees is taken as the standard wage rate, separate averages being taken for skilled, unskilled and office staff. In banks, separate standard wage rate may be taken for messengers, clerks/cashiers, Junior Officers and Senior Officers. Total emoluments paid to the staff, including overtime, would be taken into account for arriving at average wage rates. Provision should also be made for various kinds of leave, deputation for training, leave fare concession, etc.

The standard cost developed as above would constitute the direct or variable standard unit cost. Then there are expenses incurred on supervision and service personnel and other overhead expenses. Suitable standards will have to be developed for these expenses also.

Physical and Monetary Outputs

Once the cost standards are determined it should not be normally difficult to compute the standard cost that may be incurred for any given value of budgeted business. However, as the budgets relate to the volume of business in monetary terms and the cost standards to be meaningful can be developed for physical output only, such as number of drafts, vouchers, etc., it becomes necessary to first establish certain relationship between these two variables. Such relationship may vary from branch to branch. Branches should collect data relating to physical and monetary output for each year and work out these inter-relationship between these outputs. Then assuming that the inter-relationships remain unchanged during the next year for the same branch, standard costs can be computed on the basis of budgeted volume of business.

Variances

Standard costs seldom reflect costs as they actually are. There are inevitable differences which are termed as cost variances. It was stated earlier that a standard cost is a product of two factors — quantity (i.e. time) and price. Variances can result from deviations in either of these factors. Then there can be overhead variances. A brief description of each of the variances is given below :

Wage Rate Variance : Wage rate variances are mainly caused by the difference between the average salary rate of staff at the branch and the wage rate standards assumed. Such differences arise mainly due to seniority level of staff at the branch.

Operational Efficiency Variance : This variance indicates the difference between the amount of time required to perform a given quantity of work and that specified in standard. Such variance can result from a branch having relatively inexperienced staff, irregular flow of work, time spent on correcting errors and many other causes. Such variance often indicates problem areas that require closer attention.

Volume of Business Variance : This is caused by the variance between the budgeted and actual business.

The standard costs enable us to separate these three types of variances. The main purpose in separating is to make the distinction between controllable and non-controllable variances. The wage rate variance is not controllable at the responsibility centre while the other two are controllable to some extent. Hence by keeping a close watch on the latter two types of variances we can improve the performance of responsibility centres. Further, the ratio of standard expenses to the actual expenses with salaries at standard rate could be used as a very good index to measure performance of responsibility centres as this would represent the operational efficiency of centres.

Apart from providing the management with a powerful tool for controlling cost, the standard costs account system is expected to furnish the management with the following information :

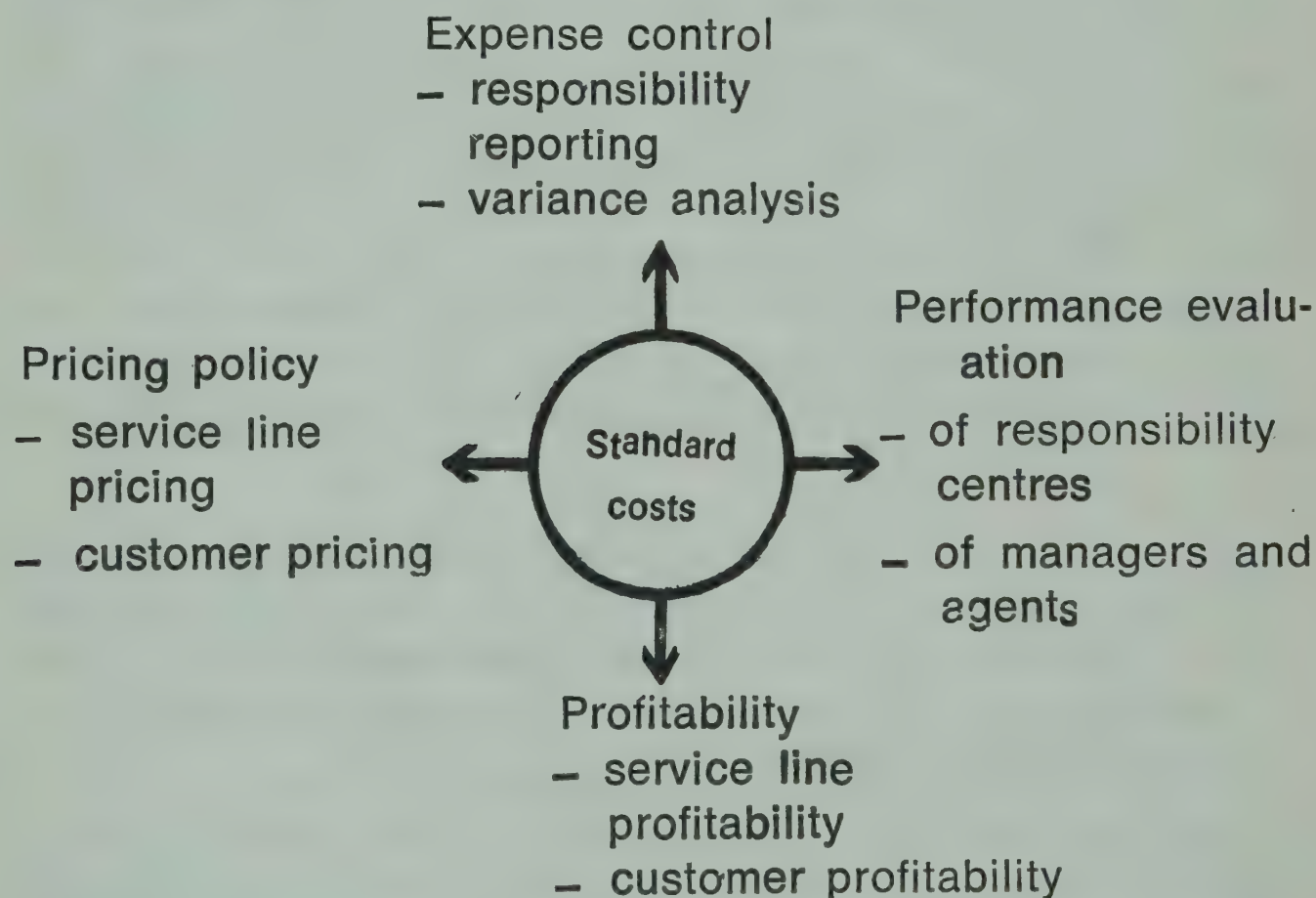
- (i) It would provide the management with information relating to cost of various services for the bank as a whole and for each region separately and for groups of branches. For this purpose, the branches would be divided into homogeneous groups.
- (ii) Relative level of operational efficiency of each group of branches with regard to overall business activity will be known.
- (iii) It would enable the manager of each branch to compare his level of operational efficiency with the bank's average, region's average and average for the group of branches to which his branch belongs.
- (iv) Head Office can know which of its branches operate at significantly above the average level of efficiency or significantly below the average level of efficiency.
- (v) The study would give the bank averages for the various costs and incomes so as to help the management in framing their policies in regard to the pricing of various services and revising of various interest rates.
- (vi) In fact, in due course, sufficient data could be built up, so that a high power 'Pricing Committee' at the Head Office could be set up to review periodically the prices levied by the bank on its existing services and to fix competitive prices for any new service the bank is contemplating to introduce.
- (vii) Profitability of various services could be determined.

Applications of Cost Standards

The major four-fold objectives of developing cost standards are to provide the opportunity for profit improvement—

- (i) through control of expenses;
- (ii) through evaluation of the accomplishment of responsibility centres;
- (iii) through analysing service line profitability and customer profitability; and
- (iv) through proper pricing policy.

Standard costs provide the basic data to accomplish these objectives. They serve as the hub around which the various other systems revolve.



The budgetary control system provides the necessary system for achieving the first two objectives, viz., controlling expenses and evaluating performance of responsibility centres, managers, etc. The integrated system developed for standard costs should also, therefore, provide for a suitable mechanism for pricing bank's various services and also for analysing the profitability of various service lines and important customers.

Pricing of Bank Services

Banks have been setting prices all these years with little or no knowledge of their costs. Once adequate cost data is made available as envisaged above it should be possible for banks to take sound pricing decisions. Although there are many factors involved in establishment of prices, they can all be summarised under three general headings: costs, customers and competitors.

Under normal circumstances costs, at least certain components thereof serve as a floor for price making. These floor prices are normally marked up by a percentage designed to produce a specified rate of return. The figures arrived at in this manner provide a good target figure before other considerations such as the market (customers) and competition are taken into account. This method is commonly known as 'cost plus pricing'. For this method of pricing one should not use cost data wherein a greater degree of inefficiencies have been 'frozen'. Standard costs, therefore, provide a better base for pricing than historical costs.

The next important factor that has to be considered while pricing is the customers who constitute the bank's market. One should take into account the type of clientele, which utilises a service normally, before fixing its price. The market segmentation of bank's activities as is done under the re-organisation of the State Bank of India results in due consideration being given to this aspect. The banks may fix different scales of charges for different market segments whether it is a charge on current account or commission on remittances and collections. While one may be inclined to levy charges at concessionary rate for commercial and institutional customers due to other profitable business offered by them, social justice may demand that charges at lower scale should be applied to small scale industries or agricultural customers. If price fixed for one set of clientele does not cover the full cost of giving the service, then the deficit will have to be covered by the prices fixed for another market segment in order to ensure

overall profitability of the service line. For this purpose again, a detailed knowledge of cost would be essential and useful.

The third important factor that should be taken into consideration is competitors. Under present circumstances, banks follow the principle of "follow the leader" with regard to fixing prices. If one bank offers a service free of charge or at low rate, then perforce, other banks follow suit. But knowledge of cost would enable banks to know whether the line of service is profitable or not so that a decision can be taken as to how far one may reduce the scale of charges.

Product pricing is a vast subject and is fairly complex. It is too important and too complex to be left merely to chance. The banks should have established policies and procedures for determining prices. These generally include pricing formulae, target mark-up percentage, target rates of return, etc. The most important consideration should be for management to provide a pricing framework that furnishes guidance to those involved in setting prices and yet permits flexibility when circumstances so dictate. This guidance can take the form of pricing formulae and targets mark-up percentages.

For this purpose, banks may establish a high power pricing committee, with representatives from concerned departments. This committee should be made responsible for establishing prices for all services of the bank or for certain class of services. In some instances, the committee may even be consulted on fixing any level of prices, which deviate from established policy for special customers.

Staffing Pattern of Branches

One very useful byproduct of developing cost standards for banks is the time standard arrived at for various activities. These time standards will enable management to evolve satisfactory norms for staffing of branches on the basis of work load. At present, many banks do not have any

specific method for assessing the staff strength required for their branches. Some of them follow the average number of vouchers per day as a guide for sanctioning the staff. In the State Bank of India hitherto this method was widely prevalent. The basic objection in the system of arriving at staff requirements of branches on the basis of average number of vouchers is that the total quantum of effort needed to handle a voucher differs considerably from activity to activity. For example, the time and effort needed to handle one current account voucher may be more than that of handling a saving bank account voucher, which in turn may be much more than handling one 'clearing' cheque. In the above system all vouchers are treated on par for the purpose of assessing the workload at a branch. This system would work satisfactorily as long as the mix of activities is more or less uniform at all branches. With the wide diversification of activities and opening of more branches at rural and metropolitan centres, the mix of activities at the branches is no longer uniform and as such, the average voucher system fails to measure correctly the workload thereat. What can be done in these circumstances is to give different weightages to vouchers of different activities so as to take into account the effort and time needed to handle the vouchers of respective activities. For example, if, on an average, a cash credit voucher calls for an effort which is more or less equal to twice the effort needed for handling savings bank voucher, then the cash credit account vouchers should be given a weightage which is equal to twice the weightage attached to savings bank voucher. Similarly, if effort needed for issue of a draft is, on an average, six times the effort needed to handle a clearing cheque, then the weight attributed to issue of draft will be six times the weight attributed to clearing cheques.

On the basis of time standards computed, it should be possible for banks to develop appropriate weights for most of the common activities of the branches. These weights, which may be referred to as "Conversion Factors", may be

used to convert the average number of vouchers per day of various activities directly into number of clerks needed to handle the workload generated by the vouchers. In other words, the "Conversion Factors" measure the workload in a branch in terms of number of clerks needed to handle it. Similar "Conversion Factors" may also be developed for assessing the number of officials required to handle the workload.

In the State Bank of India, the "Conversion Factors" were developed on the basis of the data available in respect of clerical staff. As regards the requirements of supervising staff, the span of control method was adopted rather than developing another set of "Conversion Factors." Span of control mechanism assumes that for groups of activities of the branch, there is a definite ratio between the number of clerks and the number of supervising officials deployed for the job. The time standards developed for computing cost standards could be used for fixing up these ratios as well.

Having established the theoretical basis for developing the cost standards for banks and the usefulness of these standards, the next step would be to develop a scheme for introducing cost standards in banks. A brief outline of steps to be taken for this purpose is given below :

- (i) list all activities of banks for which cost standards are needed;
- (ii) break these activities into elements for which separate time standards are to be established;
- (iii) classify these elements into three groups depending upon whether the time standards are to be developed by employing :
 - (a) M.T.M. technique,
 - (b) Work sampling method, or
 - (c) Self-logging method;
- (iv) at the O & M Department at the Head Office, develop time standards for elements belonging to

group (a) by using M.T.M. techniques. The services of an outside expert may be utilised for this purpose.

- (v) develop a scheme whereby suitable sample of branches can be taken periodically in rotation for collection of necessary data for computing time standards using the self-logging method for elements included in group (b);
- (vi) develop a system for taking a sub-sample out of the above sample for computing time standards by using work sampling method for elements included in group (c);
- (vii) list out time standards of all elements and compute the time standards for activities for which cost standards are needed;
- (viii) arrive at wage rate standards for different groups of employees;
- (ix) compute cost standards of these activities;
- (x) collect from all branches data relating to physical output and monetary output of various activities for period of one year and establish relationship between these two outputs for groups of branches;
- (xi) using this relationship, compute cost standards for each branch or for each groups of branches separately in terms of monetary output;
- (xii) if the budgetary system is in vogue at the bank, employ cost standards developed above to verify whether the expenses budgeted are commensurate with the business budget. Similarly, verify whether the actual expenses incurred are commensurate with the actual business developed on the basis of performance report.
- (xiii) annually, compute the staff requirements of a branch on the basis of data relating to physical output collected to arrive at the quantum of sur-

plus or deficit staff at each branch. This surplus or deficit may be adjusted at the time of sanctioning further staff.

- (xiv) arrange to periodically update the time standard developed by work sampling and self-logging methods and also the wage rate standards to keep cost standards up to date;
- (xv) similarly, collect physical and monetary output of branches annually to keep the ratio between these two activities up to date.

The Banking Commission has recommended that a central agency which may be either the Reserve Bank of India or special agency set up in collaboration with the scheduled banks should conduct necessary costs studies covering all banks. Until such an agency is established, commercial banks could make a beginning on their own in developing necessary scheme. In doing so, it will be advisable for these banks to consult each other so that there can be some sort of uniformity in methodology adopted and the manner in which various activities are broken up into elements. Perhaps the Reserve Bank of India or National Institute of Bank Management could initiate action in this direction.

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Current Topics

Report of the Banking Commission A Summary-Part II

BANK OPERATIONS

Loaning Policy and Priority Sectors

A sound and progressive system of credit, whether followed by co-operative or commercial banks, should have certain well understood goals. It should (a) provide integrated and comprehensive credit facilities to all the producers, (b) be based on the purpose of the loan and in particular the improvement of productivity it can achieve through modernisation and diversification and (c) be responsive to individual needs in matters like the quantum, timing of sanction, spacing of disbursements, the degree of technical help and supervision needed.

It is important under a progressive loaning system to increase the capability of the farmers to increase their overall income, resulting from improved productivity and efficiency of management. The system of credit should increasingly emphasise building up of these qualities in the borrower, which make tangible security a matter of secondary importance. The system of loaning to agriculturists

should provide for accepting as security those assets, real as well as financial, which farmers may acquire to improve their production.

The advances policy towards small scale industries would have to be functional, i.e., credit should be related to their potential productive capacity. Banks should give advances to viable units with an eye on the end use of their loans and simplify loan procedures. It is necessary for commercial banks as well as the term lending institutions and urban co-operative banks to take into account the advice and guidance of the proposed multi-service agencies and the Small Industries Service Institutes in evaluating the new credit proposals. It is necessary to ensure that the credit given by the lending agencies for a viable small unit is not wasted owing to lack of supplemental credit support from other lending agencies. Commercial banks should evolve schemes that combine in them both savings and borrowing operations of artisans and other small borrowers in order to promote and develop banking habit among them. Interest rate charged to small artisans should be reasonable and the banks should attempt to reduce costs of lending by resorting to simpler procedures as also to a properly designed policy of differential interest rates. Small artisans and other self-employed persons may be encouraged to form themselves into co-operatives or associations, whenever feasible, which could look into the financial operations of artisans and help the credit agencies with information about them when processing loan applications as also issue certificate, if needed, to vouch for the operations of artisans concerned. The scope of guarantee cover extended by the Crédit Guarantee Corporation should be so widened as to extend its coverage to all institutions which give production credit to small farmers and other borrowers.

The banks should not insist on maintenance of proper books of accounts for gauging the credit-worthiness of small borrowers. The Institute of Chartered Accountants of India can effect some simplifications in accounting practices and procedures to suit the small borrowers.

Measures for Streamlining the Operations

In order to create a good image in the minds of customers for retaining existing business and attracting fresh business, it is necessary to streamline the operations of commercial banks and to improve their efficiency. With this view in mind, the Commission has suggested, among other things, minimising the waiting time at the counters, use of regional languages, adoption of the teller system at all important branches, dispensing with half-yearly closing, introduction of mechanisation at larger branches in a phased manner, establishment of separate statutory organisation named as Credit Intelligence Bureau for compiling and furnishing credit information to various financial institutions in the country, persuading borrowers to borrow only from one bank except where credit needs are too large to be met by one bank, organising/strengthening of Organisation and Methods, Economic and Statistical Research and Public Relations Departments, establishment of separate department for management development and evolving a well-designed management information system. Further, the Commission has recommended adoption of a planned programme for use of regional languages in day-to-day operations of the banks. In order to avoid inconvenience to customers and as a measure of self-discipline, banks should issue instructions to their branches that cheques and drafts sent by them to outstation branches for collection should be considered as realised if they are not returned unpaid or information regarding their dishonour is not received from collecting branches within specified period. To bring about an improvement in the procedure, a suitable manifold system should be introduced by banks for outward and inward bills for collection. A bank Giro should be established to clear inter-bank credit transactions relating to transfer of funds from one bank account to another as also to facilitate remittance of funds by a non-account holder to an account holder and vice versa.

The Commission has urged the State Bank of India to take a lead in the matter of ascertaining the feasibility

of opening clearing houses at places with population of over 50,000, which are served by more than 3/4 banks. For the purpose of effective control over the working of branches, the Commission has stressed the need to organise an Audit and Inspection Department in each bank. It has recommended setting up of a Committee by the Reserve Bank to formulate standard forms and procedure and to consider the question of creation of a common internal audit and inspection agency. Banks should take effective steps to improve lay-out in their offices in order to enhance the efficiency of staff and for improving customer services. Banks having a sizeable network of branches should create or reorganise regional offices keeping in view the need to decentralise authority.

Measures to Improve Working Results

The profit objectives of the public sector banks should be such as to ensure : (1) the return at a specified rate to the Government on its investments after meeting the requirements of expansion and modernisation as well as for strengthening the various units and (2) to provide adequate cover for risk assets. In order to cover risk assets, the banks should be required to classify their loans and advances as (i) regular advances, (ii) substandard advances, (iii) doubtful advances and (iv) bad debts. Percentages should be specified by the Reserve Bank for making provisions for different categories of advances.

The Commission has recommended that to enable the public to have a correct and complete idea of the position of the State-owned banks through their published accounts, maintenance of secret reserves should be done away with.

From the point of view of maximum deposit mobilisation, the deposit interest rate structure has to conform to the expectations of the public about a fair return for deposits of different terms. Effects on servicing costs because of shifts in the distribution of deposits between current, savings and fixed also need examination.

Banks can improve their profitability by adopting an appropriate pricing system for their services. The main elements of the pricing system for deposit accounts should be: (i) a minimum balance should be prescribed for each type of account; (ii) extent of free facilities should be dependent on the size of account; and (iii) a charge should be made when the number of cheques drawn exceeds a given maximum or the balance in the account falls below a minimum. Consideration should be given to the need to encourage banking habit particularly amongst the small account holders. In the case of advances, emphasis should be on cost reduction through procedural improvements, especially in the case of priority sectors. The schedule of charges should be fixed on the basis of **comprehensive data on costs**. Banks can also improve profitability through the use of proper techniques in respect of cash held by them at the various branches. As regards the holding of cash, the techniques of inventory control can be applied with suitable modifications.

The banks should examine carefully their existing procedures and methods of handling foreign exchange transactions and also for developing methods of cost and profitability analysis in this field. The **implications of changes** such as exchange rate adjustments of currencies and use of wider margins for spot rates on the banks and their customers need to be studied. The relevance of the prescription of minimum rates by Foreign Exchange Dealers' Association (FEDA) for the different types of commission charges in the present context needs to be examined. In this field, the maximum should be related to the average of the costs of these banks.

Management Development

The Commission has dealt in greater details on the subject of management development of commercial banks and made various recommendations. These deal with subjects like manpower planning, recruitment and training, management information service, worker participation and

motivation, etc. On manpower planning, the Commission has recommended that banks should maintain proper inventories of their existing personnel at different levels, formulate business plans and make estimates of the requirements of personnel of different categories. The plans should be reviewed periodically in the light of business development and number of persons actually employed by banks. The Commission has recommended that separate department should be organised in banks for the purpose of undertaking manpower planning exclusively.

As the major portion of the banking industry is now in the public sector, there should be a common agency for recruitment of staff for these banks both at the clerical and junior officers' level. In this regard, the Commission has suggested setting up of suitable agency called the National Banking Service Commission (NBSC). To vest it with proper authority, it may have to be created statutorily. The provision for its membership, functions, jurisdiction, etc., may be on lines of those for the Union Public Service Commission. The NBSC may conduct examination at regional level for clerical staff and an all-India competitive examination for junior officers' cadre. The co-operative banks should also adopt a systematic recruitment policy in order to improve the quality of their staff. They should also avail of the services of the NBSC.

Training should be an integral part of the general organisational process and there should be a proper link between training and overall personnel policies. Selection of employees for training should be made on the basis of well-planned policies of career development and executive succession. For proper co-ordination of the training programme, training centres should work as wings of the training colleges of the respective banks. Small banks may not, however, be in a position to afford their own training colleges and centres. Such banks in contiguous areas should join together and establish joint colleges. The officers of small banks should also participate in courses conducted by the National Institute of Bank Management and the Bankers Training College. At a later stage, when

the banks adopt uniform procedures and methods, it may be desirable to organise training colleges and centres on a regional basis with collaboration of the concerned banks rather than each bank having its own college. The Commission also feels that the faculty of the training colleges and centres of commercial banks should be strengthened. In view of the magnitude of the problem of training banks' staff, the National Institute of Bank Management should undertake the task of planning, co-ordinating and directing the training programme. It should work on the lines of a university and the colleges of all commercial banks as well as the Bankers Training College should be its constituent units.

One of the major organisational weaknesses of the banks in India is the absence of a well designed Management Information System (MIS). The MIS in banks should be organised in such a way as to provide in compact, comprehensive and condensed form all requisite information necessary for the purposes of policy formulation, performance evaluation, evaluation control, economic analysis, etc. Information for the Managers must be regular, prompt and in a form which will serve as effective aid to the decision making and in signalling approaching events and developments. Regular needs of the various parts of the organisation should be taken into consideration. At all levels, the information should provide a basis for control, evaluation of performance and development of business.

(Concluded)

Legal Decisions

On Banking

Mortgage by Joint Owner—Rights of Mortgagee

Debi Singh

Appellant

vs.

Bhim Singh and Others

Respondents

AIR 1971 Delhi 316

Contributed by N. K. Randeria

Two questions which arose for consideration in this appeal were whether a joint owner could mortgage his share in the property, and whether the other joint owner could defeat the rights of the mortgagee. The facts briefly stated were that the appellant and his father, Khem Ram, were the joint owners of the land situated in village Ladpur, Delhi. Khem Ram obtained an advance of Rs. 2,000 from the respondents, executed a mortgage agreement, claiming himself as the sole owner of the land and delivered possession of the land to the respondents. The mortgage agreement was not registered. The appellant alleged that the respondents were trespassers and filed a suit for possession of the land.

The Trial Court decreed the suit on the ground that the respondents were in possession of the land as trespassers since the mortgage agreement was unregistered, and as Khem Ram was only a co-owner, he was not entitled to mortgage the land without the consent of the appellant.

On appeal, the Senior Sub-Judge held that the appellant could not be permitted to evict the respondents without the settlement of the dispute between Khem Ram and the respondents. The Senior Sub-Judge felt that the appellant had been put up merely to dislodge the respondents from the possession of the land, and since the appellant was not in actual possession, before the respondents were put in possession, he was not entitled to a decree for possession.

Being aggrieved by and dissatisfied with the decision of the Senior Sub-Judge, the appellant preferred an appeal to the High Court.

The High Court dismissed the appeal and observed as follows :

- (a) A co-owner was entitled to mortgage his share in the property [See Gulab Singh vs. L. Hira Lal, AIR 1954 All 314, Mt. Zura vs. Mohd. Ayub, AIR 1943, Page 17].
- (b) The definition of the mortgage given in Section 58 of the Transfer of Property Act shows that a mortgage is “a transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan.” Therefore, it is clear that Khem Ram had mortgaged his interest in the land to the respondents, and since he had put the respondents in possession of the land, in view of the provisions of Section 53A of the Transfer of Property Act, he was debarred from enforcing his right to possession.

- (c) The appellant was also not entitled to get possession from the respondents on the footing that they were trespassers as they could not be considered trespassers even against Khem Ram.
- (d) The suit was merely an attempt to avoid the mortgage through the instrumentality of the appellant. In order to succeed, the appellant had to show that he was the person entitled to get possession before the alleged trespassers got possession. In as much as the appellant had not been dispossessed by the respondents, who were put into possession by Khem Ram, the appellant had no better claim against the respondents than he had against Khem Ram. The appellant could not have got possession from his father because they were the joint owners and, therefore, the appellant could not dispossess the respondents who had the same rights as Khem Ram.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 25-8-1972	A Month Ago 28-7-1972	A Year Ago 27-8-1971
State Bank of India			
Aggregate Deposits :	1,738.7	1,708.1	1,399.6
Demand (Exclusive of inter-bank transactions)	793.4	778.8	640.6
Time (-do-)	945.3	929.3	759.0
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,137.9	1,170.5	1,084.4
Investments in Government Securities	620.8	544.9	480.2
Subsidiary Banks			
Aggregate Deposits :	446.0	444.1	389.5
Demand (Exclusive of inter-bank transactions)	183.6	184.2	163.7
Time (-do-)	262.4	259.9	225.8
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	365.8	335.0	296.4
Investments in Government Securities	92.2	92.5	83.5
All Scheduled Commercial Banks			
Aggregate Deposits :	7,672.0	7,616.6	6,438.1
Demand (Exclusive of inter-bank transactions)	3,313.3	3,321.6	2,781.0
Time (-do-)	4,358.7	4,295.0	3,657.1
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,299.0	5,316.5	4,779.5
Investments in Government Securities	1,979.0	1,866.1	1,495.7

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

		Position as at the end of		
		March 1972	Decem- ber 1971	March 1971
State Bank of India				
No. of Offices	...	2,532	2,477	2,189
Finance to Small Scale*				
Industries :				
No of Units Assisted		39,299	38,489	35,118
Limits Sanctioned	...	271.76	262.12	243.40
Outstandings	...	184.24	176.88	157.87
Direct Finance for				
Agriculture :				
No. of Accounts	...	1,85,095	1,93,852	2,12,247
Limits Sanctioned	...	64.57	68.91	71.33
Outstandings	...	44.31	47.70	50.26
Indirect Finance for				
Agriculture :				
No. of Accounts	...	906	920	1,029
Limits Sanctioned	...	94.51	96.78	164.76
Outstandings	...	34.63	41.07	62.09
Export Finance :				
Outstandings	...	118.13	108.05	97.85
Subsidiary Banks				
No. of Offices	...	1,357	1,304	1,192
Finance to Small Scale*				
Industries :				
No. of Units Assisted		20,310	19,650	17,769
Limits Sanctioned	...	96.57	90.35	88.47
Outstandings	...	56.96	50.19	46.96
Direct Finance for				
Agriculture :				
No. of Accounts	...	63,066	65,414	66,424
Limits Sanctioned	...	31.13	31.97	33.77
Outstandings	...	19.40	21.15	21.75
Indirect Finance for				
Agriculture :				
No. of Accounts	...	861	801	653
Limits Sanctioned	...	16.97	16.62	25.04
Outstandings	...	7.19	6.97	8.87
Export Finance :				
Outstandings	...	15.11	14.03	12.62

* Figures include finance to transport operators and are as on the last Friday of the month.

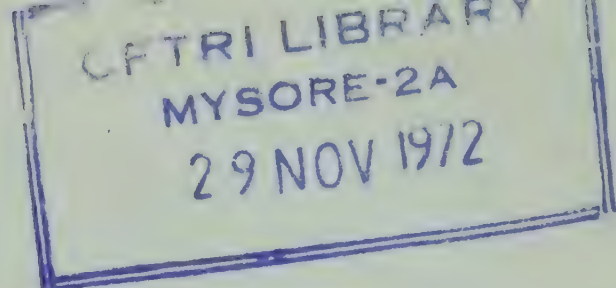
TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 25-8-1972	A Month Ago 28-7-1972	A Year Ago 27-8-1971
(Amounts in rupees crores)			
1. Money Supply with the Public	8,322	8,357	7,351
(a) Currency with the public ...	4,814	4,857	4,438
(b) Deposit money with the public	3,508	3,500	2,913
	June 1972	May 1972	June 1971
2. Foreign Exchange Reserves ...	846.2	854.8	787.1
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	8½	8½	8½
(c) State Bank of India Hundi Rate ...	8¾-10½	8¾-10½	8¾-10½
(d) Call Money Rate (Bombay) ...	3.9	4.2	4.5
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

	November 1971	October 1971	November 1970
4. Index Number of Industrial Production (1960=100)			
General Index ... (Adjusted)	191.3	190.1	183.8
	Week ended 26-8-1972	Week ended 29-7-1972	Week ended 28-8-1971
5. Index Numbers of Wholesale Prices (1961-62=100)			
All Commodities ...	206.7	205.7	192.1
Food Articles ...	243.6	241.6	217.1
Liquor and Tobacco	239.7	230.0	192.5
Fuel, Power, Light and Lubricants ...	178.6	177.2	173.1
Industrial Raw Materials ...	192.0	193.5	201.7
Chemicals ...	199.2	198.3	198.1
Machinery and Transport Equipment	167.5	166.8	158.3
Manufactures ...	174.8	174.9	165.8
	May 1972	April 1972	May 1971
6. Consumer Price Index Number for Industrial Workers — All-India (1960=100)	196	195	184
7. Foreign Trade	March 1972	February 1972	March 1971
	(Rupees in crores)		
Total Imports ...	143.0	152.1	163.2
Total Exports (including re-exports) ...	156.9	134.9	139.5

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।



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Company Taxation

R. S. BHATT

A new bill for amending the tax structure in the light of the recommendations of the Report of the Direct Taxes Enquiry Committee under the Chairmanship of Justice K. N. Wanchoo is on the tapis. There are also issues of considerable importance to corporate enterprises, which require study and public discussion. Moreover, while our own tax structure has been considerably refined to achieve various social and economic objectives, there are trends in industrially advanced countries, which invite attention and closer scrutiny. It would, therefore, be worthwhile to understand the present basis, the structure and the incentives of corporate taxation in India.

Since the World War II, the role of the State has undergone a sea-change in the developed and under-developed parts of the world. Earlier, the functions of the State were few and related largely to maintenance of law and order, defence and some essential services and tax policy was, therefore, such as to raise adequate resources to finance

* Based on Shri R. S. Bhatt's inaugural address at the Seminar on Company Taxation organised by the Institute for Financial Management and Research, Madras, on the 29th September 1972.

expenditures to carry out those functions. Now the main objective of State policy is socio-economic development. This new role of the State has completely changed the context for the State tax and expenditure policies. The broad development objectives relate to rapid and sustained increase in per capita income through promotion of savings, productive efficiency, international trade, technical change, and reduction in region-wise as well as inter-personal inequalities relating to income and wealth. The tax policy is thus an effective instrument for the purpose of attaining these objectives. A tax system should, therefore, be viewed in the context of the social and economic objectives which are of the essence of State policy of the country concerned. Further, tax and expenditure policies are one aspect of the co-ordinated set of policies evolved to achieve the objectives, which enjoy high priority and for which resources are needed for rapid implementation. If the Indian tax system is viewed in the context of the social philosophy governing the State policy, it will assist us in understanding the rationale and to some extent, justification for adopting it to promote specific objectives.

The tax-structure of any country is evolved over a period of time and is subjected to review and critical scrutiny in order to make it more consistent and efficient and to improve its administration. In India, our tax-system, as it evolved after Independence, was exhaustively reviewed by the Taxation Inquiry Commission in 1954-55; the system of direct taxation was reviewed by Dr. N. Kaldor in 1956, by Shri S. Bhoothalingam, former Secretary in the Department of Economic Affairs, Ministry of Finance, in 1968 and recently by the Direct Taxes Enquiry Committee under the Chairmanship of Justice K. N. Wanchoo, whose report has recently been published. The reports of Shri Bhoothalingam and the Wanchoo Committee have made recommendations which constitute the tax package, which they regard as more suitable and equitable. It is, therefore, suggested that in considering any specific item of direct taxes, we should try to understand its rationale and implications with reference to the package of which it forms

a part because each package has its own logic and inner consistency and taken out of its context, an item may look attractive but would lose much of its relevance and justification.

The main objectives, which have governed the corporate tax system in India, are first, ever since the Government of India decided to embark on planned economic development, it is used as an instrument for raising resources for the implementation of programme of development; second, it has been used to achieve a desirable balance between distribution of profits and undistributed portion ploughed back in business; third, by a series of tax incentives, it is used to stimulate investment, productivity and export. Thus, there is now a highly sophisticated and diversified corporate tax structure in the country.

Within the corporate tax system, there are various refinements, which have been introduced to achieve specific objectives from time to time and as a result, differential rates of taxation are made applicable to different categories of companies. Under the Finance Act 1971, a company has been defined as (a) an Indian company, if it is formed and registered under the Indian Companies Act, and (b) a foreign company if it is corporate body incorporated under the law of any other country. Companies are taxed generally at flat rates, varying with (a) the nature of income, (b) residential status and (c) class of company. It is, therefore, evident that under the present law, taxation in the case of a company would depend upon whether it is (a) domestic company, or (b) a foreign company; secondly, whether it is widely-held company or a closely-held company; thirdly, whether it is an industrial company or a trading company. In the case of domestic companies, the rates of income-tax payable by widely-held companies (i.e. companies in which the public are substantially interested) are lower than those applicable to closely-held companies, which function under the ownership and control of a small group. Again, among the closely-held companies industrial companies have received

more favourable treatment than those engaged in non-industrial and trading activities. Further, among the industrial companies, the smaller companies with income up to Rs. 10 lakhs pay income-tax at a lower rate. Under the law, the Central Board of Direct Taxes has the powers to declare any institution or body, whether incorporated or not, whether Indian or foreign, as a company for the purposes of income-tax. Generally, a domestic company means an Indian company or any foreign company or corporation, which made "prescribed arrangements for declaration and payment of dividends within India". It may be added that foreign companies, which have not made these arrangements, are required to pay somewhat higher rates than the domestic companies because the purpose is to compensate for the loss of revenue from non-resident shareholder, who would not be subject to Indian tax on dividends declared by such companies outside India from profits earned in India. As a result, the corporate tax system in India includes multiple rates applicable to companies according to their status and class as well as various rebates and tax-incentives. There was, therefore, need for rationalisation and simplification so as to make tax-administration smooth and efficient. The Wanchoo Committee has carried out a comprehensive inquiry into the system of direct taxes and made recommendations towards this end. It would, therefore, be useful to examine some of the salient aspects of corporate taxation in the light of its recommendations, especially because public attention has been focussed on some of the issues raised in its report and further discussions would be helpful in clarifying the position in this regard.

The main recommendations of the Wanchoo Committee are: (i) A uniform rate of 55 per cent will apply to all domestic companies without any distinction, based on nature of control or activity or size of total income. (2) Sur-tax on companies should be abolished. (3) Exemption of priority industries by way of deduction of 5 per cent of the profits in computing total income be

withdrawn. (4) Allowance of Development Rebate be discontinued. (5) Distributed profits, i.e., dividend up to 8 per cent of paid-up capital or Rs. 25,000, whichever is less, will be deducted in computing total income in the case of small companies with a paid-up capital not exceeding Rs. 5 lakhs. In the case of all other companies distributed profits up to 8 per cent of the paid-up capital will be taxed at an effective rate of 30 per cent. (6) A tax on capital in the form of capital levy at a general rate of 1 per cent be fixed on capital—defined as owned and borrowed — of all companies, differential treatment in the form of either basic exemption or a lower tax being prescribed for small companies; the borrowed capital is defined as an amount calculated at eight times the net interest paid by a company towards borrowing during the year. New industrial companies may be exempted from the capital levy for a period of 5 years from the date of their incorporation. (7) A Reconstruction and Stabilization Reserve Fund may be established to which all companies may contribute up to a maximum of 10 per cent of their gross total income. The contributions will be allowed to be deducted in arriving at the total income of the companies for tax purposes; interest will be paid at 6 per cent per annum; the companies will be free to withdraw 50 per cent of the deposits, the balance of 50 per cent remaining blocked for a period of 5 years; after 5 years the amount may be withdrawn with Government's approval for expansion and development purposes only, including employees' housing; the amount of first withdrawal of 50 per cent and interest would be subject to tax as income, the balance of 50 per cent will not be liable to tax, but will be deducted from the cost of the assets for purposes of depreciation. (8) There are specific tax incentives given in respect of industries employing more labour, or of industries going to backward areas or of industries which increase productivity in the case of specific goods. This in essence is the new corporate tax-structure which the Wanchoo Committee has recommended to rationalise and simplify the

existing system. We may now examine some of the important issues arising from them.

The Wanchoo Committee has adopted business profits as the basis, which will be subject to tax at a uniform rate of 55 per cent. The Committee has admitted that there is an element of "double taxation" if a company pays tax at 55 per cent and dividends distributed to shareholders are again subject to tax at rates applicable to each individual's total income. It has, therefore, introduced a differential rate on the portion of distributed profits, which will be taxed at 30 per cent in the case of companies having capital in excess of Rs. 5 lakhs. The intention clearly is that companies should distribute a higher quantum of their annual profits than they have been doing hitherto because "it is much better that investible funds are channelled through the capital market than they are allowed to be retained by the existing industrial units themselves". I think the Committee is right that "the tax on company profits at a uniform rate enhances the cost of risk capital in relation to the cost of borrowed funds". This recommendation is consistent with the Committee's other recommendation for the establishment of National Development Fund, which would be utilized for financing development projects, for "fiscal laws can play an important role in stimulating investment and economic growth". In this context, the recommendation of the Committee for exempting the initial issue of equity capital from Wealth-tax for a period of five years beyond the 31st May 1971 from the "date of allotment" is also worthy of note.

In the corporate tax system there is a provision for sur-tax, which is levied on companies having excess profit beyond the prescribed limit. This item was introduced in the 1962-63 budget as "super-profits" tax, which formed part of the substantial tax effort to meet the increased defence expenditure. In the subsequent year, the tax was refined and re-named as "sur-tax". It was admitted at the time that it was in the nature of an "excess profits" tax. It has invited criticism that this form of taxation introduces the

‘progressive’ principle in the case of corporate bodies and secondly, it tends to penalise the more effective use of capital. Both Shri Bhoothalingam and Wanchoo Committee have, therefore, recommended its abolition. Shri P. C. Padhi, Member, Wanchoo Committee, is of the view that “the sur-tax applies only to the larger companies that make higher rates of profits. These high rates might be due not so much to efficient use of capital as to advantages consequent on monopoly conditions, absence of competition, conditions of the domestic market or other protective policies of Government and he is, therefore, not agreeable to its abolition. It seems, therefore, that sur-tax is a kind of excess profits tax and its continuance is favoured by the authorities because it brings in sizable revenue, estimated at Rs. 17 crores in 1971-72.

In the new package of corporate taxation, Shri Bhoothalingam and the Wanchoo Committee have recommended tax on capital, i.e., capital levy, with the object of “promoting efficient use of productive resources”. The Committee has observed that “a tax on capital would rationalise the scheme of company taxation and would incidentally check the avoidance of Wealth-tax through the medium of closely-held companies”. It has, therefore, recommended a capital levy on both owned and borrowed capital of a company for it “would act as a check on avoidable capital expenditure and on borrowings and it would discourage unnecessarily large inventories”. The capital levy is an additional tax, which would bring in revenue to compensate the loss arising from lowering the rates of taxation, abolition of sur-tax, etc. This recommendation has aroused considerable public interest and evoked criticism from the corporate sector. Shri M. P. Chitale, one of the Members of the Committee, has estimated the incidence of capital levy as percentage of profits (before tax) at 15 per cent. He has, therefore, expressed the view “it is obvious that this situation cannot be considered an improvement over the existing position”. He has also made certain recommendations to reduce the inci-

dence of capital levy (P. 225). Shri P. C. Padhi, another member of the Committee, has worked out the implication of a capital tax on companies at the rate of 1 per cent and come to the conclusion "that immediately the public sector companies would be saddled with an additional impost of Rs. 35 crores". He considers that it is open to "substantial objections" and is, therefore, opposed to it. It would be worthwhile to scrutinize carefully the contention that the imposition of capital levy is contemplated as a means of discouraging ineffective and wasteful use of capital. In India, there are at present various constraints and regulations for the use of capital. But taking capital as a scarce resource, its efficient use would depend on the availability of other real resources like raw materials, conversion factors like electric power and skilled workers and other facilities like transport and communications. In industrially advanced countries, which have developed highly competitive markets, these resources are available at a price and it would, therefore, make a difference whether capital was used efficiently or not. In India, however, where the availability of the resources is at times uncertain or delayed, this advantage would not accrue to the same extent. There may be cases in which a company may suffer a loss and may not be liable to pay income-tax but would be obliged to pay capital levy at the scheduled rate. Both Shri Bhoothalingam and Wanchoo Committee are emphatic in their view that capital levy would be applicable to all companies, irrespective of whether profits are made or not. There is another consideration which, I think, is equally, if not more, important. Having reached the present stage of industrial development, in the next 25 years, more capital-intensive industries like steel plants, machine-building industries, fertilizer plants, petro-chemical complexes, etc., would be needed; these would have much longer gestation period and their profitability would be low as compared with consumer goods industries. In this context, one may wonder whether it would be prudent at this stage to introduce a levy of this kind, which may hamper

the growth of capital intensive industries in the next two decades.

Of the complex of tax-incentives, which are at present available, the one which has attracted considerable attention is the decision of the Government to withdraw development rebate from the 1st June 1974. The Wanchoo Committee has stated that "we are convinced that development rebate has outlived its utility and has been rightly withdrawn". The purpose of development rebate, which has been in existence since 1955, was to stimulate investment in selected types of fixed assets by giving tax exemption up to the specified limits of the value of investment. At first, it was in the form of initial depreciation allowance, which was replaced by development rebate on machinery, plant and equipment. The Taxation Enquiry Commission had suggested that it should be restricted "to industries important from the viewpoint of national development and those which may not be developed by the private sector in the absence of stimulus". The Finance Act of 1955, however, granted a rebate of 25 per cent to all industries on all new plant and machinery installed after May 1954. Subsequently, there have been several modifications in the level of development rebate as applicable to different categories of industries. Of the amount of development rebate claimed, 75 per cent should be put in a reserve account, which can be utilized during the next eight years for the purpose of business other than for distribution of dividend or profits. This assisted in the generation of internal resources which were utilized for further expansion and diversification. There are hundreds of enterprises which have taken full advantage of this tax remission and have doubled their productive capacity within a decade. This also gave rise to tendencies which were not anticipated. First, in many cases, the resources thus made available were quickly utilized for acquiring fresh productive assets on which again development rebate was claimed and this process was continued for several years with the result that the tax liability of the industrial unit concerned was considerably alleviated.

Secondly, since internal resources were available, the supplementary finance was raised by way of loan capital, thereby dispensing with the need of equity capital. Thirdly, while it has contributed to the expansion and diversification of our industrial structure, it has also created what one may call 'conglomerates' in our country. For some time, the economists and financial experts were of the view that there was absolutely no need to make available this investment incentive to consumer goods industries, which had high profit potential, and consequently it should be restricted to (a) industries enjoying high priority, whether in backward regions or elsewhere, (b) small scale industries and (c) industries having large employment potential. While recommending abolition of the development rebate, the Wanchoo Committee has recognised the need for some investment incentives for (a) industries located in backward regions and (b) employment-oriented industries. In the case of industries in backward regions, it has recommended accelerated depreciation, equal to one-half times the amount of depreciation which would otherwise have been available. For labour-intensive industries, it has recommended a tax rebate ranging from 5 per cent to 10 per cent of the tax payable in respect of income derived from a labour-oriented industrial unit newly set up after a specified date. The rebate would be admissible for a period of 5 years. For assisting the industrial growth, the Wanchoo Committee has recommended the establishment of a Reconstruction and Stabilization Reserve Fund, details of which have been briefly mentioned earlier. While the development rebate has the merit of providing resources to the industrial concern making investment to acquire productive assets, there is no means of transferring those resources for the development or expansion of other units to fill the gaps in our industrial structure. The proposed Reconstruction and Stabilization Reserve Fund provides this facility.

Among other incentives, the Wanchoo Committee has recommended the continuance of the tax holiday of new companies for a period of 5 years under Section 80J of

the Income-tax Act. For giving a boost to industrial production the Committee has recommended that an incentive should be given to companies engaged in the manufacture or production of specified goods to reward additional productivity, i.e., increased utilization of installed capacity and increased production. This would be in the form of rebate by way of deduction ranging from 5 to 10 per cent of the tax payable for every 10 per cent increase in output. It is suggested that suitable norms may be evolved by competent authorities for each industry/unit. The provision is flexible and, if selectively applied, would enable industries engaged in the production of specific goods to increase their output. At the same time, it has recommended the abolition of the preferential tax treatment given to priority industries under Section 80 I.

As regards closely-held companies, the Wanchoo Committee has recommended the abolition of penal levy under Section 104, first, because in its view the provisions do not seem to have achieved their purpose, and secondly, its recommendation of certain concessions in respect of distributed profits of companies would encourage these companies to distribute reasonable dividends. Further, it has also recommended abolition of the differential tax rates for industrial and non-industrial companies within the category of closely-held companies. Thus closely-held companies are now placed on the same footing as other companies.

The tax package offered by the recommendations of the Wanchoo Committee will be viewed primarily from the standpoint of the increase in the tax burden on the corporate sector. Shri Chitale has estimated a net increase of 15 per cent or more over the collections in 1970-71. This does not take into account additional liability arising from the abolition of development rebate estimated at Rs. 40 crores. He has stated that "in my opinion, the tax structure recommended for companies will be purposeful only if it does not increase the aggregate tax burden on companies". He has, therefore, recommended some modifications for the

re-arrangement of the existing tax burden. It seems that the substantial contributory factor in the resultant increase would be the incidence of capital levy. We should, therefore, discuss various aspects of this proposal in greater detail. Further, experience has shown that tax incentives are most fruitful, if they are selectively applied for the promotion of specific industries, which require to be promoted in the national interest. In addition, with the change in the national priorities, the list of industries to which these incentives would be applicable may be revised every five years.

The frame-work of direct taxes once decided should remain in force, without major changes, for a period of at least five years, for that will enable entrepreneurs to take investment decisions on the basis of the overall viability and the internal rate of return expected on the capital expenditure involved in individual industrial projects. The tax structure is an organic part of the economic system and it is essential that there is some certainty and stability about its basic features. Frequent changes on an ad hoc basis tend to create a climate of uncertainty, which is not conducive to productive effort. Secondly, if some stability with regard to the impact of the tax system on the economy is to be ensured, it is necessary that adequate research should be carried out with regard to the working of the tax system in the country. It would be a good idea if the Government sets up Research Cell in the Central Board of Direct Taxes to study the impact of various taxes so that in the light of experience gained suitable modifications appropriate to and consistent with major development objectives may be made, whenever required.

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Some Thoughts on Credit Appraisal*

L. G. Kulkarni

The last few years have witnessed a marked shift in bank advances from trade to industry. Simultaneously, the emphasis has shifted from security to viability and need. Banks have also come to be guided by social objectives. As, however, resources of banks are limited in relation to the total credit requirements of the country (although the resources at present indicate a comfortable position in relation to the expressed demand), there has been need for credit rationing, which, in turn, has necessitated closer scrutiny of loan applications. Attitudinally, banking today differs in essence from banking in the past in the following areas :

- (i) banking has now become a business proposition, and a banker is prepared to take reasonable business risks whereas in the past his principal interest was safety of his funds;
- (ii) as trustee of public money, today's banker is interested not only in keeping these moneys safe as the banker in the past ensured, but also in that these moneys are used for purposes which are socially desirable and productive. As a corol-

* The views expressed in this article are personal opinions of the author and should not be taken as necessarily representing the official views of the State Bank of India or its Subsidiaries.

lary, follow-up of loans, which in the past was entirely security-oriented, is today done with a view to ensuring that the moneys are used properly; and

- (iii) bankers have now come to support, as a matter of deliberate policy, certain sectors, which are accorded priority. Such priority, in line with social objectives, now goes to assist units, which in the past would have never stood any chance for bank finance.

As a result of this changed outlook, considerable efforts are being made to employ the latest techniques in assessing the working capital needs of borrowers, provision of finance for which is still the principal lending activity of commercial banks. Credit decisions have come to be guided by what is known as the need-based approach. Financial analysis has been developed into a fairly sophisticated science, with the assistance of ratio analysis, fund flow projections, etc. This article proposes to share a few thoughts on assessment of working capital needs of business.

In the past, credit decisions by bankers were mostly subjective decisions. I remember the case of an elderly banker who used to pay a visit to his important clients once a year. When he grew old, he started inviting his important borrowers to his office once a year. One of these borrowers could not understand such sheer waste of time in meeting people where the banker hardly discussed any business. He asked the banker the utility of such visits and the latter replied that he just wanted to satisfy once a year how his borrower walked, talked and whether he was hale and hearty and whether his money was safe. We have undoubtedly travelled a long distance since the days of such credit appraisal but there is still a lot to be said in favour of the old hunch. Based on an experience and judgement of years, the hunch was not totally an irrational thing after all. Indeed it will be a bold banker even today, who

can claim that his preliminary credit decision is not made in his first interview with the borrower. The subsequent detailed examination and refined credit appraisal often supports a decision already taken; to that extent, the techniques presently in use go to supplement, not supplant a subjective judgement.

This does not mean that the sophisticated analysis is either superfluous or without significance. An interview with a client might help a banker to form a preliminary view whether to say yes or no, but it will not be sufficient to arrive at the quantum of credit needs. For this, a detailed examination would be essential. Also, the credit needs would require to be justified by the build up of current assets, which must have some relevance to the past performance of the unit, present trends and future expectations. There is also need to examine the finances of the company and how they are managed and the company's plans for future, which, in turn, would entail detailed scrutiny of the past working results, comparative financial ratios, financial projections and the relation they bear to historical data, market trends and, most importantly, the quality of the company's financial management — whether progressive, prudent, competent, independent, professional or otherwise. In addition, the banker has to take into account the priority accorded to the company and its activity under the planned set-up, viz., whether the activity is export-oriented or employment-oriented or in the backward regions or whether the company is in the small scale sector, etc. All this exercise is necessary to be carried out in the wake of the social responsibilities of the banker and this is in addition to his old function of ensuring safety of his funds and development of good and profitable business connections.

There is thus no going back to the old days of subjectivity and play-safe. A detailed and critical appraisal of the needs of a borrower is both necessary and desirable. This is easy to understand. However, in the realm of im-

plementation, a lot of problems crop up. Working capital assessments today are largely guided by the client's expectations regarding production, sales, profitability or stock build-up. The sophistication employed in appraising units functioning in an unsophisticated economy could sometimes cause financial strangulation. We do not have a computerised economy. There are numerous imponderables floating around, which provide a very unstable base for building a super-structure of financial assessment. Raw material supplies, price levels, industrial licensing policies, import policies, transport bottlenecks, shipping schedules, wage levels and labour situation are only a few of the factors which could cause a total distortion in the expectations and make nonsense of any assessment based on projections. It is very difficult under such circumstances to hold a borrower responsible if his plans go awry rendering the banker's assessment based on such plans meaningless. It is also not possible to apportion the share of responsibility between defective planning and economic uncertainties, when actuals are wide off the targets.

In support of loan applications, bankers today call for considerable data, pertaining to the balance sheet and profit and loss account, stock movements, borrowing arrangements, expectations for the current year and the next year in respect of production, sales, stock build-up, cash flow, etc. As stated above, the data are both useful and necessary for a comprehensive understanding of the credit needs of a borrower. Unfortunately, a large number of industries today do not accord due importance to maintaining detailed financial records, which would help them furnish such data. Quite a few borrowers do not have the expertise to prepare reliable cash flows and other projections. Perhaps on the basis of a cost-benefit analysis, borrowers may not afford such expertise or such records. No doubt, to satisfy the banker, borrowers do supply the numerous statistical data, but these are not reliable and they make no secret of their inability to stand by these. As the banker too has no machinery at present to ensure

a month to month follow-up for comparing actuals with projections, the borrower is likely to be tempted (by the sheer pressure of his needs) to make a nice arithmetical exercise in support of his application. As a matter of fact, in many cases, the supporting data are worked out after submission of the loan application rather than vice versa. Indeed, an unscrupulous borrower can even cook up figures to make an arithmetically fool-proof case, which can stand any sophisticated scrutiny. The banker has, therefore, to constantly bear in mind the difficulties faced by borrowers in furnishing the detailed statistics and the possibility of whatever statistics received being entirely unreliable. This imposes a severe limitation on the banker's ability to make a thorough examination of business proposals.

Coming to the methodology itself, at present credit needs are assessed on more or less standardised forms on the lines stipulated by the Reserve Bank of India. Such standardisation is in some respect unrealistic. The form suited for a textile unit would mean very little for an engineering unit and would be virtually useless for a construction company. The problems, customs and accounting methods of different industries being different, it is very necessary to devise a suitable form for every industry for assessing its financial requirements. Again, what is suitable for a manufacturing company will not be applicable at all to a trading company and the picture becomes more confused when a company has diverse manufacturing activities or where manufacturing and trading activities are combined. There is need for considerable study for evolving proper forms of assessing credit needs of different industries.

These are then some of the difficulties of present day credit appraisal. These difficulties are not insurmountable. Given the will to help the banker in his task and the conviction about the desirability of better financial discipline, borrowers should be able to overcome the difficulties. Special assessment forms suited to different industries are also

not difficult to evolve. But more important than these is the psychological pitfall for the banker who goes about enthusiastically in his job. He must constantly bear in mind that the exercise of credit appraisal is an aid and only an aid to credit decisions. It goes to improve the quality of his decisions, but it is not an end in itself. The right perspective would demand that the sophistication is not sought for its own sake; otherwise the banking would be reduced to a scholarly exercise rather than a business proposition. All analysis must always lead to securing good business, consistent with the social responsibilities of the banker. Analysis is not wanted for its own sake. Sometimes, a narrow credit appraisal may not justify a proposal, which from pure business point of view is very attractive. For example, an application for a small accommodation not justified on the basis of the financial data could probably be excellent business if it has potentials of bringing more acceptable business to the bank or developing a connection which is expected to be very valuable. A credit analyst, who takes a purely analytical attitude, may not accept such a proposal; a good banker would. There is one more risk in relying excessively on the financial analysis. As stated above, in a number of cases, data supplied, particularly in regard to projections, are extremely unreliable. But the examination based on the refined techniques could give analyst the satisfaction of having done a very scientific job of credit appraisal, which is likely to lull him into complacency. It is, therefore, very necessary that the sophisticated techniques of credit appraisal are used with full realisation of their precise role and their limitations without losing sight of business considerations.

Some of the new concepts in the area of bank finance, which have gained circulation in recent years, need to be given a fresh look. One such concept is double financing, i.e., securing more finance than is needed. So stated, it is readily agreed that it should be avoided and that industries, which have more creditors than stocks of raw materials and stores held by them, should be discouraged from doing

so. But this concept is also interpreted in a narrow sense, i.e., obtaining credit twice for the same goods. Based on this, it is argued that goods received on credit should be totally eliminated from any assessment of working capital needs. This is incorrect even in theory. So long as total finance obtained is less than the total working capital requirements and the margins provided by the borrower from his own funds in the overall are in order, it is not fair to take a sectional view and further expect him to provide margins separately on every single item of stocks. Similarly, on the same principle, finance is sometimes sought to be denied for sales made to a sole selling agent or major selling agent, who happens to have some connections with the manufacturing company, for fear of the selling agent securing the goods on credit and obtaining finance there-against from his banker, such collusion being easier because of group connections. Firstly, such misuse is possible whether the selling agent has connections with the seller or not. So long as the bankers of the seller and the purchaser have made usual assessments of their respective credit needs after taking into account credits given and credits received, any refusal to finance the sales would be incorrect. As regards the group considerations, these are in most cases examined by more rigorous agencies than banks. Such concepts, therefore, require to be re-examined and modified while making credit appraisals.

There is one major lacuna at present in the field of bank credit — this is in respect of follow-up. The detailed appraisal systems naturally expect a banker to keep a constant watch over the performance of his client with a view to comparing actuals with projections and reviewing the position wherever necessary. Today the resources available with the banker are totally inadequate for this purpose both in terms of quantity and quality. Because of this, the main purpose of a comprehensive exercise of credit appraisal is not fully realised. For the financial disciplines, which the banker is supposed to inculcate amongst his clients, in itself a desirable goal, the means available to

the banker are insufficient. The expertise available with the banker for any meaningful follow-up is in many cases inferior to that available with his clients. To achieve best results from the credit appraisal system of today, it is very necessary that the banker has a competent and qualified cadre for a post-sanction follow-up of loan application.

Such are the limitations of the present methods of credit appraisal. The solution is not in giving up the system itself. The proper course is to understand the limitations of the system and to reinforce the system by providing the required resources for its effective implementation. The banker has to remain in business and make use of the refined analytical tools without ignoring the counsels of his sixth sense. He has to abide by the social objectives and to ensure that money is made available to the needy, to the extent of the need, for a socially accepted purpose and that it is made use of for the purpose for which it is sought. As a trustee of public money, he is interested in imposing healthy financial disciplines on industry and commerce, but he does not have today the required expertise at his disposal. And all this exercise has to be done without causing bureaucratic delays, which might hamper productive enterprise. How does he go about this unenviable task?

One simplistic solution could be to argue that once the entire analysis is done at the licensing stage by the Government authorities, money should be freely available. But this would presume detailed financial appraisal on the part of an over-worked machinery which is not suited for such a job. Alternatively, it is for consideration whether the present system of assessment could be made quicker, simpler and more streamlined to be followed by more meaningful and effective follow-up action. The present discretion of Rs. 10 lakhs vested in commercial banks in respect of credit limits of Rs. 100 lakhs or over is patently

very meagre and could be stepped up without harming public interest. Perhaps credit sanctioning could be made more liberal and credit supervision more rigorous both by the commercial banks and the Reserve Bank. This approach could possibly make for a more speedy and business-like credit appraisal without jeopardising the safety of banks' advances or without losing sight of social objectives. The idea would need to be developed further in case it is found acceptable in principle.

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Current Topics

Report of the Ramanujam Committee — A Summary

The Thakkar Committee, which reviewed the working of special credit schemes of commercial banks, with particular reference to their employment potential, had recommended that early steps should be taken to ensure regular and prompt settlement by large and medium industries of the claims of small entrepreneurs arising from supplies made to them. A committee was constituted in April 1971 by the Reserve Bank of India under the Chairmanship of Shri K. N. R. Ramanujam, to study the problem and to work out suitable arrangements to ensure speedy settlement of such claims.

Time-lag in Receipts of Payments

The number of functioning small scale industrial units/ancillaries in the organised sector is placed around 2 lakhs. About one-sixth of them were estimated to supply

goods to medium and large industries/Government Departments/public sector undertakings. More than half the number of small scale industrial units supplying their products to medium and large scale industries faced the problem of delayed payment. The position of small enterprises in regard to receipt of payments from Government Departments and public sector undertakings was more or less identical with the pattern of their sales to medium and large industries, although the magnitude of delay would seem to differ considerably as between the various categories of buyers in Government Departments or public sector undertakings.

Reasons for Delay in Payments to Small Scale Industries

Payments to small scale industries do not form any significant proportion of the total expenditure of big companies. Even so, it is possible that lack of adequate financial planning on the part of some medium and large companies leads to temporary strains on their liquidity. In such a context, there might have been a tendency on their part to cushion its impact, to the extent possible, through delayed payments to their suppliers, which specifically affected small scale industries, whose bargaining position was relatively weak. The delay in payment to medium and large industries by Government Departments/public sector undertakings had no major bearing on the delayed payments to small scale industries by the former. The delay in payment to small scale industries by medium and large industries was generally attributed to (i) the inferior quality of goods supplied by them, (ii) non-adherence to supply schedules, (iii) lack of adequate care taken by suppliers in the submission of relevant documents (invoices, bills, etc.), and (iv) the delay in inspection of goods by the buyers. In the case of Government Departments/public sector undertakings, in addition to above, the Governmental procedures covering payments to the suppliers and, more importantly, the manner of their implementation have also an important bearing on the delay.

Impact of the Delayed Payments on Small Scale Enterprises

While the period of supplier's credit would depend on several factors such as the type of product, the distance between the points of sale and delivery, means of transportation used, etc., a period up to 3 months may be considered as a norm for purchases from small scale industries and any extension of this period should be justified by special factors. The sales to medium and large industries/Government Departments/public sector undertakings accounted for 70 per cent of the total sales of small scale industrial units, which supplied goods to them. Further, a major portion of their sales (82 per cent) was on credit terms, while a substantial part of their purchases was on a cash basis. This adverse sundry debt/sundry credit position of small scale industrial units was a reflection of the weaker bargaining position of this sector in a competitive market. Obviously for those units which sell their products exclusively to medium and large industries or Government Departments, the impact of delayed payments on their operations would be particularly severe.

The impact of the delayed payments on the liquidity of small scale industries is mitigated to the extent to which banks extend the period of retention of bills drawn by them or the period of their advances against book debts beyond, say, 90 or 120 days. However, undue extensions of the period of credit against receivables do not constitute an appropriate remedy for minimising the delay in payment of bills. Moreover, in the long run, such undue extensions of the period of credit by banks would only contribute to perpetuate the problem.

Suggestions for Minimising Delays in Payments to Small Scale Enterprises

The magnitude of the problem of delayed payments to small industries covered a sizeable segment of small industrial sector. In view of the imperative need to encourage the growth of small enterprises in the economy, it is necessary

to take measures to remove any disabilities from which they suffer. The recommendations for minimising the delay in making payments to small scale industries emanate from the basic need to strengthen the bargaining position of small scale units on the one hand and the need to inculcate a greater measure of financial discipline on the medium and large industries as well as Government Departments on the other.

(1) **Quality Control :** Small scale industries should pay greater attention to the quality of products manufactured by them and adhere to the schedule of supplies prescribed by the buyers. Quality control, apart from assisting small units in marketing their products, also facilitates quicker inspection of the products by their buyers and, in certain cases, can even dispense with inspection. There is a good deal of scope for the units to avail themselves of ISI marking facilities in the manufacture of final products as well as components and spare parts. One of the pre-requisites for eligibility for ISI marking facilities is that the small scale unit should have an arrangement for testing its products. The State Governments as well as promotional agencies in the field of small scale industries such as the National Small Industries Corporation Ltd. and State Small Industries Corporations should set up laboratories for facilitating testing of products of small scale industries on payment of reasonable charges.

(2) **Need for Bill System of Financing Sales :** A substantial portion of credit sales of small scale industries is financed under the 'open account system'. The outstanding book debts of 1,211 small scale units studied by the Committee amounted to about Rs. 12.49 crores as compared to their outstanding bills of Rs. 1.74 crores. From the lending bank's point of view, book debts by way of security are not as attractive as bills of exchange. The study undertaken by the Committee revealed that of the

total advances of Rs. 373 crores by 34 commercial banks to small scale industries, about 20 per cent constituted advances against receivables. Of the total credit against receivables, advances by way of purchase/discount of bills formed 68 per cent, overdrafts against bills 25 per cent and advances against book debts only 7 per cent. Only 12 out of 34 banks had advances against book debts. Therefore, in practice, commercial banks prefer bills to book debts for their lending. The reluctance on the part of the banks to make advances against book debts is understandable. The Committee felt that the advances of commercial banks to small scale units against receivables would automatically increase if their sale transactions could be converted into bills. The conversion of credit sales into bills would also ensure a financial discipline on the buyers of goods as well as on the borrowers by restricting the period of the bank advance to the usance of the bills. The banks would also be in a position to discount these bills under the new Bill Market Scheme of the Reserve Bank of India. Bills drawn by small scale units on medium and large industries could be negotiated by the former with their bankers and they would obtain the finance against such bills immediately. A majority of medium and large scale units, which purchase goods from small scale units, however, do not accept bills drawn by the latter. According to the data furnished by 33 banks, their advances by way of bills purchased (i.e. demand bills) constituted 40 per cent, while the bills discounted by them accounted for only 28 per cent of their advances against receivables. The higher proportion of demand bills used in financing the sale transactions of small scale units is probably a reflection of the prevailing trade practices.

Reasons for Non-acceptance of Bills

The reluctance on the part of industrial units to accept bills drawn by small scale units was attributed to the following reasons: (a) the system involves a financial commitment to pay the amount of the bill on a specified date, which large industrial units find it difficult to meet in the

event of an emergency; (b) frequent rejection of goods due to absence of quality control would complicate the matters on both sides; (c) the stamp duty charges would be an additional expenditure to small scale units; (d) amounts involved are too small; and (e) possible delay in submission of bills, which are normally routed through banks.

Medium and large industries should not have any objection to accepting the bills drawn on them by small scale industries, particularly those who are regular suppliers and who have established satisfactory dealings with them. The Committee, however, felt that until such time as the bills drawn by small scale industries attained popularity, the Government might consider the scope for reduction of the stamp duty on such bills. Small scale units adopting the bill system of financing sales would be able to procure larger finance from banks by way of negotiation of bills than against book debts, as the margin stipulated by banks on advances against bills is considerably lower than that on book debts.

In order to remove the administrative difficulties, the Committee has recommended that bills for Rs. 1,000 and above need be accepted by medium and large industries. Where no acceptance is required, such bills can be sent direct to the drawees. Bills requiring acceptance will have to be routed through banks. Undue delays, if any, in this regard could be taken care of by banks through modifications in their office procedures. Where the payment is made after the expiry of a certain period, usance bills should be drawn instead of demand bills, which will also help to bring such bills within the purview of the new Bill Market Scheme of the Reserve Bank of India.

Additional Incentives for Popularising Bill System

With a view to providing incentives to the buyers to accept the bills, the Committee has suggested that suppliers may offer a discount to the buyers more or less on

the lines of 'cash discount' offered for settlement in cash. To dissuade the drawees of bills from refusing the payment on the bill, even after acceptance, it is desirable to insist upon payment of overdue interest at the rate stipulated by drawers if bills are not paid on due dates. As a further measure of popularisation of the bill system, particularly for bringing the bills within the purview of the new Bill Market Scheme of the Reserve Bank of India, there should be separate sub-limits within the overall credit limits sanctioned to medium and large scale industries for acceptance/letter of credit facilities covering their purchases from small scale industries. Banks should encourage the prescription of such sub-limits through offer of liberal and concessionary terms therefor. The rate of discount on bills discounted by banks for small scale industries should be $\frac{1}{2}$ to 1 per cent lower than the rate of interest on advances against book debts.

With a view to facilitating credit sales through bills, the Committee felt that the buyers should take steps to ensure that quality of inspection was as thorough as possible so that rejections at a later stage would be reduced to the minimum.

With a view to avoiding the delay in inspection of goods after delivery, the Committee has recommended that medium and large industries should specifically indicate in their purchase contracts that the inspection of goods manufactured by small scale units would be completed within an agreed period, which should not exceed 30 days from the date of receipt of goods, and that any delay in this regard would be compensated by payment of penal interest on the value of stores supplied.

The Committee has further recommended that all Government Departments and public sector undertakings should carefully study their payment procedures with a view to simplifying and streamlining them so as to ensure that supplies are received according to terms of the contract. In particular, they should stipulate a time limit for (a) completion of inspection by the buyer, (b) submission

of certificate of receipt by the consignee and (c) checking and scrutiny of bills so as to ensure that entire process is completed within 45 days. If it is found that delay in payment has occurred even though the supplier has fulfilled the terms of the contract, he should be compensated by way of payment of penal interest on the outstanding debt for the period of delay. Purchase transactions of Government Departments/public sector undertakings, to the extent possible, should culminate in bills of exchange.

The Committee has suggested that the Federation of Associations of Small Industries of India should take immediate measures to train small scale entrepreneurs in documentation procedures, particularly with regard to the supply of goods to large and medium industries as well as to Government Departments so that the bills do not remain unpaid on account of purely procedural defects.

Scope for Reduction in Margin

The margin stipulated by banks on bills ranges from nil to 20 per cent. Normally, banks do not prescribe any margin when purchasing documentary bills. Clean bills as well as overdrafts against bills usually attract a margin. A reduction in margin on bills will enable the small scale suppliers to augment their funds. When credit limits are fixed on a need-based approach and margin itself is stipulated according to the capacity of a unit, a reduction in the margin may not be relevant. In other cases, considering the self-liquidating character of the bill, the margin on bills purchased/discounted by the bank, if at all, should be nominal and in order to reimburse the small borrower to the full extent of the cost of production, the margin should not exceed the profit element.

The margin normally taken against book debts by banks ranges between 25 and 40 per cent and sometimes even 50 per cent. If the objective of margin, especially in respect of small borrowers, is to establish the stake of the borrower in business, and as book debt advances are gene-

rally made along with advances against inventories and fixed assets, the Committee felt that there was no need for banks to prescribe such a high margin on book debts, if they satisfied themselves that the debts were current and good. A difference in the levels of margins on bills and advances against book debts will be desirable at least to discourage advances against book debts.

Scrutiny of Sundry Creditors

A detailed scrutiny of the 'sundry creditors' item in the financial statements submitted by larger borrowers will enable banks to keep a watch whether the proportion of bills payable to the sundry creditors is showing a progressive improvement. These proposals may be tried by banks in respect of their borrowers enjoying credit facilities of Rs. 25 lakhs and over. For borrowers enjoying credit facilities of Rs. 1 crore and above, the Reserve Bank of India should keep an overall check on the implementation of the above proposals through their Credit Authorisation Scheme.

Letters of Credit Instead of Cash Deposits with Public Sector Undertakings

Small scale units are required to keep cash deposits/earnest money with the public sector undertakings in connection with the purchases made by them. If such cash deposits are substituted by letters of credit opened by banks on behalf of the small scale units in favour of the public sector undertakings, it will be possible to release the deposits so blocked and to that extent the liquidity position of small scale units would improve. The letters of credit opened by banks in this regard are eligible for guarantee cover under the Credit Guarantee Scheme.. The Committee felt that it would be advantageous to small scale units to replace cash deposits for their orders by a system of letters of credit.

Legal Decisions

On Banking

Omission to Sue Drawers of Hundis Pledged to Bank—Whether the Debtor Discharged

B. Shambumal Gangaram and Another

vs.

The State Bank of Mysore

AIR 1971 Mysore 156

Contributed by N. K. Randeria

In August 1950, the defendants approached the Bank for advances up to a limit of Rs. 21 lakhs. The Bank granted the advance and opened two accounts, one being local usance bills discount account and the other overdraft account. The local usance bills discount account was secured by mortgage by way of deposit of title deeds of defendants' immovable properties and the hundis discounted by the Bank. A sum of Rs. 1,61,272.45 became due under the aforesaid accounts and the Bank filed a suit against the defendants. The suit was defended. The two main contentions made by the defendants, for which this case is reported, were as follows :

- (i) The defendants had furnished two securities to the Bank, one by way of deposit of title deeds and the other by way of hundis. The Bank having not taken action on the hundis and having retained them with them without returning them to the defendants in time and thereby allowing them to become time barred, had destroyed or impaired the defendants' remedy against prior parties, and, therefore, the defendants were discharged from the liability to the Bank to that extent; and
- (ii) the claim of the Bank was barred by limitation.

The High Court rejected both the contentions and observed as follows :

- (i) The evidence showed that the defendants were carrying on money-lending business, and, after taking advances from the Bank, were lending monies to their customers against hundis, which, in turn, were discounted by the Bank. The presentation of hundis was a mode of drawing advances from the Bank and it was never intended that hundis should necessarily be securities for the advances made by the Bank.
- (ii) The defendants used to take back the hundis not paid for by the drawers and give fresh hundis to the Bank.
- (iii) The Bank had issued notices to the drawers and the defendants calling upon them to pay. The Bank had not refused to return the hundis against payment.
- (iv) This was not a case governed by the law of guarantee. In view of the conduct of the parties of taking back hundis by making payment or by tendering fresh hundis by way of renewal, the defendants did not become sureties in respect of hundis discounted by them with the Bank.

- (v) Mere omission to sue the drawers of the hundis or allowing the hundis to become time barred would not discharge the defendants because the defendants could themselves set the law in operation against the drawers after taking back the hundis by making payment.
- (vi) If there is a contract, express or implied, that the creditor shall acquire or preserve any right against the principal debtor and the creditor deprives himself of the right, which he has stipulated to acquire, or does anything to release any right which he has, that discharges the surety; but where there is no such contract and he only has a right against the debtor without reference to the maker or makers of the hundis, and if he does not take any action against the maker of the hundi, that does not release the debtor unless he can show some injury in consequence of the creditor's conduct.
- (vii) Section 139 of the Contract Act could be invoked by a surety only if he is able to show that a creditor has done any act which is inconsistent with his rights or omits to do any duty and thereby impairs his remedy. If the creditor either by express or implied contract agreed with the surety that he would recover the debt in respect of the hundis, the surety would have a cause of action if the creditor fails to do so or allows the hundis to become time barred.
- (viii) The provisions of the Contract Act dealing with the cases in which the surety is discharged must, in the case of parties to bills of exchange, promissory notes and cheques, be read along with Sections 39 and 40 of the Negotiable Instruments Act. Section 39 enables the holder of a bill of exchange to enter into a contract with the acceptor without losing his rights against other parties pro-

vided he had expressly reserved his rights against those parties. Section 40 deals with the discharge of indorser's liability where the holder has, without the consent of the indorser, destroyed or impaired the indorser's remedy against a prior party.

- (ix) On the facts of this case, the Bank did not destroy or impair the remedy of the defendants in respect of hundis because as the evidence on behalf of the defendants themselves shows that the parties never intended that the Bank should take action against the makers of the hundis.
- (x) The present suit was for sale of mortgage property for realisation of the mortgage debt. The defendants admitted the debt by acknowledging in writing. In view of the acknowledgement, which was undoubtedly admission by the defendants, the suit was in time. This suit was not on accounts, and the question whether on the date of the suit the claim was barred by time would not be relevant.

In the result, the appeal was dismissed with costs.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 29-9-1972	A Month Ago 25-8-1972	A Year Ago 24-9-1971
State Bank of India			
Aggregate Deposits :	1,743.5	1,738.7	1,442.0
Demand (Exclusive of inter-bank transactions)	787.9	793.4	647.2
Time (-do-)	955.6	945.3	794.8
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,187.7	1,137.9	1,097.1
Investments in Government Securities	470.5	620.8	393.4
Subsidiary Banks			
Aggregate Deposits :	457.8	445.9	390.2
Demand (Exclusive of inter-bank transactions)	187.8	183.6	161.4
Time (-do-)	270.0	262.3	228.8
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	339.4	365.8	301.1
Investments in Government Securities	96.9	92.2	83.7
All Scheduled Commercial Banks			
Aggregate Deposits :	7,801.1	7,672.0	6,514.1
Demand (Exclusive of inter-bank transactions)	3,356.3	3,313.3	2,800.9
Time (-do-)	4,444.8	4,358.7	3,713.2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,167.5	5,299.0	4,822.4
Investments in Government Securities	2,068.7	1,979.0	1,528.5

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

		Position as at the end of		
		March 1972	Decem- ber 1971	March 1971
State Bank of India				
No. of Offices	...	2,532	2,477	2,189
Finance to Small Scale*				
Industries :				
No. of Units Assisted		39,299	38,489	35,118
Limits Sanctioned	...	271.76	262.12	243.40
Outstandings	...	184.24	176.88	157.87
Direct Finance for				
Agriculture :				
No. of Accounts	...	1,85,095	1,93,852	2,12,247
Limits Sanctioned	...	64.57	68.91	71.33
Outstandings	...	44.31	47.70	50.26
Indirect Finance for				
Agriculture :				
No. of Accounts	...	906	920	1,029
Limits Sanctioned	...	94.51	96.78	164.76
Outstandings	...	34.63	41.07	62.09
Export Finance :				
Outstandings	...	118.13	108.05	97.85
Subsidiary Banks				
No. of Offices	...	1,357	1,304	1,192
Finance to Small Scale*				
Industries :				
No. of Units Assisted		20,310	19,650	17,769
Limits Sanctioned	...	96.57	90.35	88.47
Outstandings	...	56.96	50.19	46.96
Direct Finance for				
Agriculture :				
No. of Accounts	...	63,066	65,414	66,424
Limits Sanctioned	...	31.13	31.97	33.77
Outstandings	...	19.40	21.15	21.75
Indirect Finance for				
Agriculture :				
No. of Accounts	...	861	801	653
Limits Sanctioned	...	16.97	16.62	25.04
Outstandings	...	7.19	6.97	8.87
Export Finance :				
Outstandings	...	15.11	14.03	12.62

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 29-9-1972	A Month Ago 25-8-1972	A Year Ago 24-9-1971
(Amounts in rupees crores)			
1. Money Supply with the Public	8,189	8,322	7,401
(a) Currency with the public ...	4,668	4,814	4,478
(b) Deposit money with the public	3,521	3,508	2,923
	July 1972	June 1972	July 1971
2. Foreign Exchange Reserves ...	808.0	846.2	785.2
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	8½	8½	8½
(c) State Bank of India Hundi Rate ...	8¾-10½	8¾-10½	8¾-10½
(d) Call Money Rate (Bombay) ...	3.0	3.9	4.6
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

	January 1972	December 1971	January 1971
4. Index Number of Industrial Production (1960=100)			
General Index ... (Adjusted)	192.3	191.3	183.0
	Week ended 30-9-1972	Week ended 26-8-1972	Week ended 25-9-1971
5. Index Numbers of Wholesale Prices (1961-62=100)			
All Commodities ...	207.6	206.9	191.9
Food Articles ...	244.5	243.7	216.3
Liquor and Tobacco	240.8	239.7	195.0
Fuel, Power, Light and Lubricants ...	178.8	178.7	173.1
Industrial Raw Materials ...	194.6	192.5	199.3
Chemicals ...	199.2	199.2	198.1
Machinery and Transport Equipment	167.7	167.5	158.9
Manufactures ...	175.1	174.8	166.9
	May 1972	April 1972	May 1971
6. Consumer Price Index Number for Industrial Workers — All-India (1960=100)	196	195	184
7. Foreign Trade	June 1972	May 1972	June 1971
	(Rupees in crores)		
Total Imports ...	138.3	127.6	156.1
Total Exports (including re-exports) ...	140.9	153.8	121.3

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।

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Understanding Our New Organisational Roles*—I

Tushar K. Das

Introduction

One of the continuing trends observed in recent years among large enterprises the world over is that of redesigning of their organisational structures to give them more muscle to survive and prosper in the highly-competitive and fast-changing business environment. As a complementary development, we have also noticed how the management styles and administrative practices in these enterprises are being progressively revamped to suit the changing requirements. For it is obvious that an appropriate infrastructure of managerial functions and roles is as much needed as a modern organisational structure; only

*** Author's Note :** The views expressed in the article are my own and should not be attributed to the State Bank of India. I am grateful to the following persons for their insightful review of the manuscript : Prof. Ishwar Dayal of the Indian Institute of Management, Ahmedabad, Shri S. K. Datta, Dy. Secretary (Reorganisation), Shri M. Susheel Chander, Vice Principal, State Bank Staff College, Shri A. K. Sen, Dy. Chief Officer (Reorganisation), and Shri J. A. Kher, Private Secretary to the Chairman (all of the State Bank of India). Although I have profited greatly from the significant criticisms and suggestions of each of these readers, they are in no way responsible for any shortcomings of the paper.

a combination of the two can result in a cohesive organisational framework for carrying out business operations efficiently.

In designing the new organisational structure for the State Bank of India, due emphasis was placed on developing an effective managerial style in the context of the Bank's corporate objectives and its structural characteristics. Also, many new positions have had naturally to be created at various levels, some of them with a job content radically different from what we used to have in the old pattern. These new roles demand a somewhat different kind of expertise from our officials. But more than that, almost all the roles in the new design call for an altogether different business perspective and managerial style.

It is imperative, therefore, that all of us working in the Bank, present role-incumbents as well as prospective ones appreciate the rationale and character of the new organisational roles. One of the ways this can be achieved is to discuss some role-related concepts with the help of illustrations of actual situations in the Bank. If we are able to attain some degree of conceptual clarity about the nature of the new roles and their essential interconnectedness, it would be helpful to us in performing the different roles along desired lines. For this purpose, clearly, knowledge of task requirements is not enough. One has also to be aware of the basic considerations behind the designing of the managerial roles in the new organisational structure as well as of the general dynamics of roles. We shall, in this paper, attempt to understand the rationale for the new set of roles and some of the underlying role-related concepts involved in managerial effectiveness. Specifically, we shall start with a discussion about why the new roles were necessary consequent upon the separation of the operating and specialist functions in the revised structure and then go on to some of the concepts in role theory in the context of the new positions we shall follow this up with an analysis of the limitations of the traditional job descriptions and conclude with an explanation of the Role Ana-

lysis Technique which is used to bring about mutual understanding among role incumbents about their respective functions and their basic interdependence.¹

Separation of Operating and Specialist Functions

One of the important aspects of the new organisational structure is the provision of specialist support at the Local Head Office which is quite distinct from the operating functions. There are several new types of positions even on the operating side but one can easily see a clear-cut operational chain of command running through the entire organisation from the highest level to the lowest. The specialist personnel are, however, somewhat different in regard to this characteristic — that is, there is no distinct command chain of their own running through all the levels in the organisation. Moreover, unlike the operating personnel, the specialists have no direct authority over the base level units (the branches): this is because, although they have an area of control responsibility, the function of the specialists is largely of an advisory nature. To illustrate, while the Dy. Secretary (Planning & Staff) has under his direct control the Development Managers, the Planning Manager, the Personnel Manager, etc., this command is evident only between the two levels and does not form part of any continuous hierarchical chain covering all the other levels in the organisation. In other words, the functionaries on the specialist side have their own hierarchical patterns at certain specified levels in the administrative offices of the Bank (e.g., Dy. Secretary (Planning & Staff) vis-a-vis Development Managers at Local Head Offices) but do not have a parallel, top-to-bottom, continuous hierarchical chain similar to the operational command chain. The considerations behind such placement of the specialist (as well as service) functionaries in the organisational structure are:

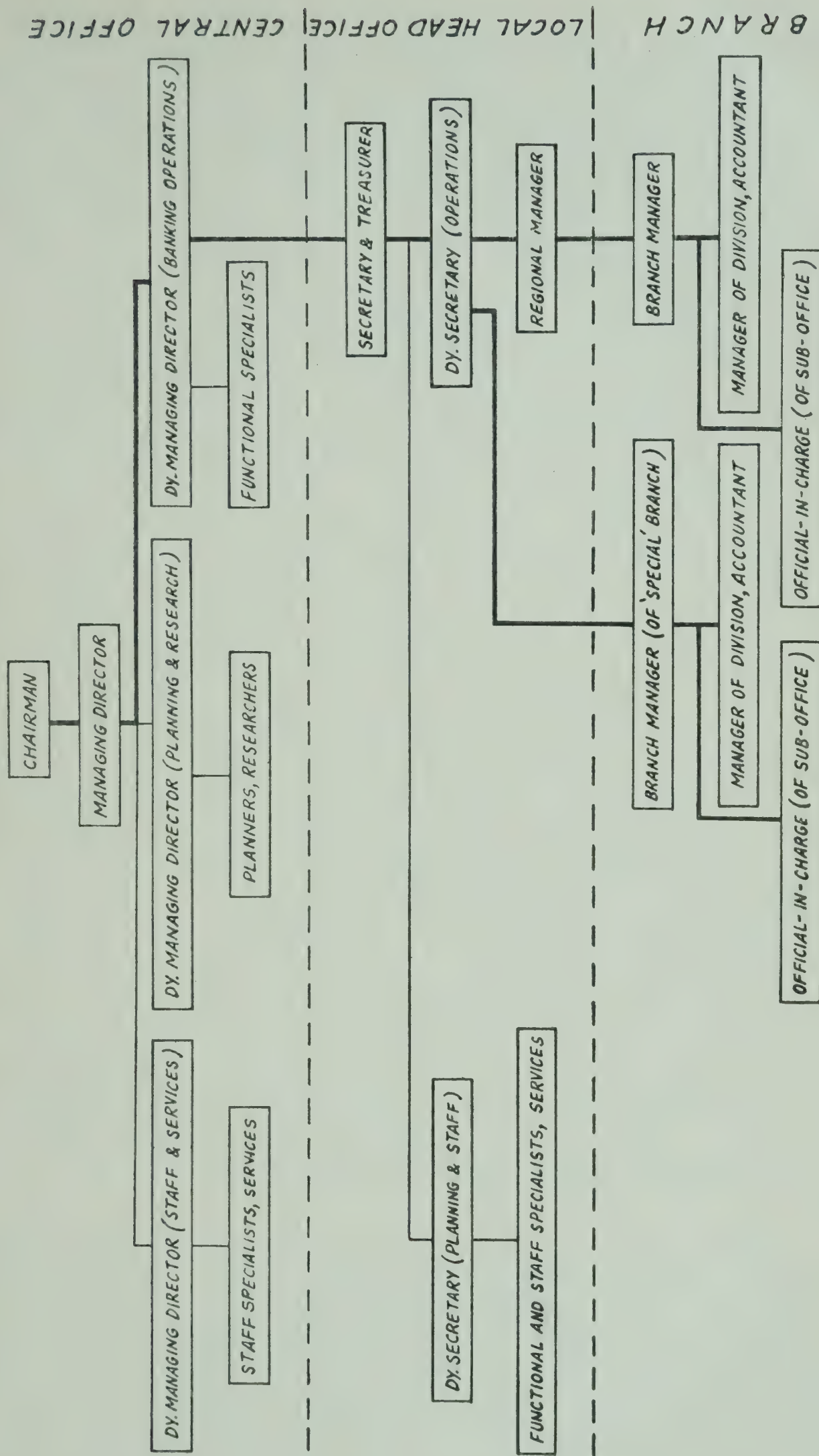
- (a) to provide for a unified operational chain of command so that the operating personnel can derive the full benefits of the principle of “one man, one

boss", without let or hindrance from "extraneous" superiors (See Fig. 1);

- (b) to provide for personnel with responsibility for specialist and service tasks, freed completely from the burden of operational routine, so that they can devote their full time and attention to developmental and innovative aspects of the Bank's activities;
- (c) to provide for the continuous interaction between the specialists and the operating people for the proper discharge of the functions of the administrative office; this is because, on the one hand, the operating personnel will have to depend on the people in the specialist side for expert advice and support, new schemes, etc. and, on the other, the specialists can do their jobs effectively only when they can spot emerging operational problems through constant liaison with their operating counterparts; and
- (d) to provide for the most convenient arrangement or system in the structure for the operating and specialist personnel to meet, discuss, and interact among themselves in the common endeavour of guiding and administering the branches: this has been achieved by having the specialist as well as operating staff in the same office (Local Head Office) and not far away from each other, with, say, the operating people located away from headquarters, at centres within the various Regions.

The above four aspects of the administrative set-up are in fact the principal elements of the managerial content envisaged for the Local Head Office under the new design. It is contemplated that for the effective performance of the total task of the Local Head Office, it is not only necessary that each official should perform the duties pertaining to his position but that, in doing so, he should

FIG.1: UNITY OF OPERATING CHAIN OF COMMAND



constantly interact with his other colleagues (discuss matters, keep in touch, exchange ideas, suggest fresh strategies, etc.). Indeed, one has to go further and state, as the fundamental premise of the new managerial style, that an official cannot discharge his duties properly (in the sense intended) without adopting these frequent interactions as an integral part of his method of working. It is entirely conceivable that, for instance, a Regional Manager could carry on for some time without availing himself of specialist support. But it is extremely doubtful whether he can do so for long, because problems will arise (like shortfall in business performance) or opportunities will show up (which call for new strategies and schemes for exploitation) which would demand specialist help. For it is not possible for a Regional Manager to carry on with his functions in a routine manner, as the very texture of his role has changed from the traditional one which, say, the erstwhile District Superintendents had, and which was basically of a "maintenance" type, to an essentially "managerial" one in which he (the Regional Manager) is expected to improve the performance of his Region to progressively higher levels, countering competition, increasing business volume, making the most of available opportunities, developing new types of business, building up in his subordinates managerial capabilities and operational expertise, and generally increasing profitability. In these matters, the expert knowledge of the specialists would be of invaluable assistance. Conversely, the specialists can hardly perform their functions properly without being continuously aware of what is actually happening at the operating levels and the emerging challenges.

With this introductory background as to why the officials at the Local Head Office (both operating and specialist) need to interact to do their jobs well, we shall go on to a discussion of some of the basic concepts of role theory which are relevant and useful to our officers in performing their roles effectively.

Role Concepts

One of the ways to gain an understanding of the nature of organisational roles is to discuss in detail various aspects of role theory as applicable to a business enterprise such as ours. Such an approach, however, appears to be too ambitious for our present purpose, for we are not interested in any theory per se but only to the extent that it can provide us with useful insights for appreciating the dynamics of roles in the revised organisational structure of the Bank. We propose, therefore, to describe some selected concepts and define certain technical terms involved in role theory and illustrate these with examples from our own organisational milieu. By employing these definitions as convenient pegs to hang relevant illustrations from our workaday world, we would, hopefully, be able to understand the various factors involved in the new organisational roles without too much effort.

Role theory is a relatively new field of study and even today it is not universally acknowledged as a separate specialised discipline. This is perhaps because the literature pertaining to the field of role is strewn over various disciplines; an integration of all their research findings and the evolution of a distinct perspective have yet to take place. But certain concepts were developed in the 1930s and the construction of a language in the role field has been going on apace in the post-World War II period.² We are, however, not so much concerned here about the academic maturity of role theory as such, but how and to what extent the theoretical knowledge can help us in understanding the roles in the Bank's new organisational structure.

Now, man in his life has to act in many roles, such as husband, father, friend, member of a football team, political worker, business executive. Also, apart from these broad categories of roles, a person may have an altogether different kind of variety in roles. To take a simple example, consider an individual as a member of a small group. He may be the chairman, secretary, or merely an ordinary

member. But he may also be the leader, initiator, or scape-goat. An idea of the large variety in roles played by an individual can be had by considering his functional roles as a member of a discussion group. K. D. Benne and P. Sheats³, two American researchers, have identified a number of such roles and have classified them into three broad categories, which are related to (a) the group task, or the functions which facilitate the performance of the task before the group; (b) the maintenance or functioning of the group, so that the group is regulated and strengthened; and (c) the individual, in which case the purpose is to satisfy his own needs and the functions may not be relevant either to the task at hand or to group working. Examples of these functional roles are :

Group Task Roles : initiator-contributor, position-stater, information-giver, information seeker, opinion-giver, opinion-seeker, elaborator, coordinator, orienter, evaluator- critic, energizer, procedural technician, recorder.

Maintenance Roles : encourager, harmonizer, compromizer, group observer, gate-keeper, standard-setter, follower.

Individual Roles : aggressor, blocker, recognition-seeker, self-confessor, playboy, dominator, help-seeker, special interest pleader.

Hence, according to the particular character of the situation in which he finds himself, a person changes his behaviour in order to play his role properly. For instance, the behaviour of a Regional Manager would be different for the various roles he is required to play in relation to : his family, his other relatives, his superiors, peers and subordinates in the office, the Branch Managers, Bank's customers, and many other categories of persons. Thus, the Regional Manager, as any other individual, has to step in and out of an endless procession of roles which demand differing behaviour patterns in consonance with the varying characteristics of his changing roles.

Organisational Roles

In the organisational context, the concept of roles finds its relevance in the need for different people to perform different tasks, and different roles in the same task, so as to achieve the goals of the enterprise. Obviously, each person has to engage in activities which in their individual ways are related to numerous others, leading to the performance of the total task as planned. Various roles are thus necessary in order to perform various tasks and these roles exist in the form of a network of functional relationships with other roles. "Roles describe specific forms of behavior associated with given tasks; they develop originally from task requirements. In their pure or organisational form, roles are standardized patterns of behavior required of all persons playing a part in a given functional relationship, regardless of personal wishes or interpersonal obligations irrelevant to the functional relationship."⁴ When, for instance, the Manager of the SIB Banking Division at a Branch receives an application for the grant of an advance from a small scale industrialist, he processes the proposal according to his ability and experience and sends it along to the Branch Manager for sanction or for onward transmission to the Regional Manager or Dy. Secretary (Operations) depending on the extent of financial authority delegated to the Branch Manager and the official who controls him. When this happens the Manager is merely meeting his role requirements.

Organisational roles have many facets, each of which has been explored by role theorists in their chosen ways. We shall however tread a simple path. We shall not, for instance, concern ourselves with how the working environment of a person (namely, the characteristics of the group and the organisation in which he works) affects his behaviour at work, although the nature of this environment does have a significant bearing on his performance in terms of, say, physical and mental health. Our purpose will be to define certain terms and attempt to understand how

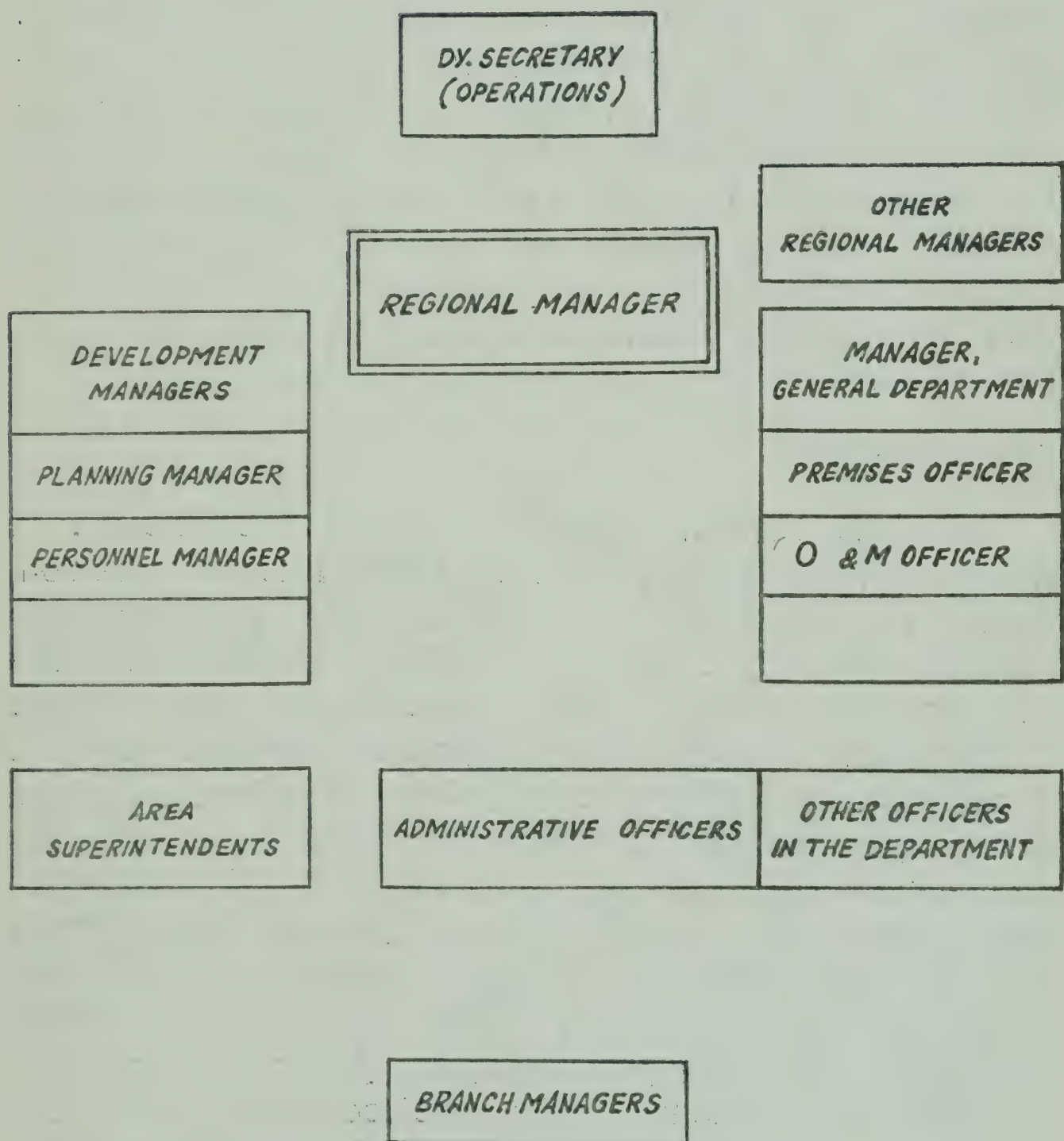
various roles are involved in the effective working of the Bank in the reorganised structure.⁵

One of the essential characteristics of an organisation is that it consists of a number of *activities* performed by people occupying certain *positions* or offices within the organisation and the relationships between them. The activities associated with any position in the organisation constitute the role of the person occupying the position. For example, we all know that a Branch Manager has to engage in a number of activities to carry out the tasks and responsibilities entrusted to him. When he engages in these activities we can say that he is playing the role which is envisaged for his position as Branch Manager.

Role Set

Now, no position in the organisation would be existing in isolation; each position would be connected to several other positions, either directly or indirectly, in terms of the method of working, the nature of the tasks, the reporting relationship, etc. Hence a person's immediate superior and the direct subordinates in his own department or office, as well as any other officials belonging to his own or other departments with whom he has a functional relationship, form a network of positions. All these positions together constitute a *role set* pertaining to the position of the person we are talking of. Thus, to take the example of the Regional Manager, the network of related positions pertaining to his position would include the Dy. Secretary (Operations), the Administrative Officers in his department, the Area Superintendents attached to him, the other Regional Managers, some of the other officials in his department, certain officials in the specialist wing at the Local Head Office, and, of course, the Branch Managers in his Region (Fig. 2). Hence, all these positions make up the role set for the position of the Regional Manager. In the case of a Branch Manager, the role set for his position would include most or all persons working in his branch, the Regional Manager, the Area Superintendent, and possibly certain

FIG.2 : ROLE SET OF REGIONAL MANAGER



officials in the specialist wing in the Local Head Office, like Development Managers and the Personnel Manager (from whom he may have to seek advice and information). Strictly speaking, the role set of a position should also include persons outside the organisation having some influence over the behaviour of the incumbent, like customers. We shall, however, not take these 'external' persons into account, for reasons of simplicity, in our definition of role set.

In the two examples of role sets given above, the Regional Manager and the Branch Manager, around whom the matrix of roles has been built up, are known as *focal persons* for their respective role sets. The role of the focal person can be called the *focal role*. In order to identify a role set, therefore, it is necessary to know the focal person, that is, the individual whose role (focal role) or position is central to the relative role set. It is important for an officer to identify his role set so that, in performing his role, he may be able to use this knowledge for interacting with the proper persons and, also, for determining the persons most likely to be affected by his actions.

Role Behaviour

We may state in a general way that *role behaviour* is what the focal person does in relation to his position, which is at the same time relevant to the system or organisation. We may draw a distinction here between those activities which can be said to appertain to his role and those which do not. When the Branch Manager asks his Accountant or Manager of a Division to attend to a customer complaint, he is behaving in consonance with his role, because this particular action of his is relevant to his position. Even when the Branch Manager does nothing about the complaint and decides to ignore it, or is grossly negligent, his action is still within his role. The question whether he is thereby performing badly is not pertinent for us here. The essential point involved is whether these activities form part of the role of a Branch Manager, or

whether they have no relevance to the role. To illustrate, whether he habitually comes late to office, or sits very late, or says some prayers before starting work, or is very hot-tempered or vacillating, are all extraneous facts insofar as his role is concerned, as these activities and behaviours are irrelevant to his role as a Branch Manager and do not, therefore, form part of his role behaviour.

In many respects role behaviour can be looked upon as an individual's contribution to the achievement of organisational goals. Role behaviour is the human output in organisations, whether the behaviour is in relation to the opening of a new deposit account, the sanction of an agricultural loan, the issue of a demand draft, the establishment of a letter of credit, the renting out of a safe deposit locker, dealing with a customer complaint, or the appointment of an employee. Whether all these functions are carried out efficiently or not is immaterial so long as the officer concerned has behaved according to the standard or institutionalised pattern of behaviour relating to his role. However, role behaviour may not necessarily conform exactly to role expectations, but it is always related to them in some way, as we shall presently see.

Role Expectations

The various members in any individual's role set are affected by his performance, either directly or indirectly, depending on the work-flow, authority structure, etc. Being members of his role set means that in order to do their work properly it is necessary that the focal person performs his role well. This dependence of different members of a role set on the performance of the focal person (for the completion of their own task) generates in their minds some beliefs and attitudes about how the focal role should be played. In other words, various members begin to form prescriptions for the manner in which the focal person should behave, what he should do and what he should not. The term used for these prescriptions of the members of a role set is *role expectations* (or, alternatively, role pres-

criptions). Role expectations constitute the expected standards of behaviour on the part of the members of the role set from the focal role incumbent.

The nature of these role expectations is conditioned by what idea the members have of the position of the focal person and of his capabilities. These expectations may quite naturally differ among members of the role set and certain problems may thereby be created. For instance, in regard to the role of the Dy. Secretary (Planning & Staff), it may be that the Development Manager (International Banking) desires from him intensive guidance and explicit instructions, whereas the Development Manager (Personal Banking) may be more self-motivated and wants a free hand in his work, seeking only general support for his function from his superior. The two Development Managers evidently have very definite ideas about how the Dy. Secretary should relate to each of them. It might well prove difficult in such a case for the Dy. Secretary to decide upon the best method of supervision.

The role expectations such as those mentioned above are related to the job. Most of these expectations are in fact generated in the work situation by rules and regulations, top management policies, business strategies, position descriptions, procedural instructions, etc. To the extent these expectations are familiar, as in our old structure, there is usually no difficulty in performing the role, but when these are ambiguous and uncertain, as in the case of some roles in the new design, there is scope for tension and anxiety. This particular aspect we shall deal with later in the article.

However, expectations also arise in areas which are not directly relevant to the job content of a position. These may relate to personal attributes and cultural values. For instance, the peculiar culture in our Bank requires that officers should wear neckties and even jackets, especially in the administrative offices and while in the presence of the seniormost officials. The discomfort this sartorial norm

entails when the weather is warm or when air-circulation is not satisfactory in the workplace, is not particularly relevant when it comes to conforming to this expected behavioural standard expected by the senior officers concerned. Fortunately, in line with the general trend towards less formality and more pragmatism in our country, these dress requirements are also gradually changing: the author is aware of a few senior officials in the Bank who have actively encouraged their subordinates to use more comfortable apparel like bush shirts which are suitable in the local weather. This comment may appear to smack of some light-heartedness, but if one ponders over the revealing fact that with the transfer of these enlightened officials (who give the lead for a more appropriate dress in Indian conditions) there is an immediate change back to the formal pattern, one can gauge the inherent strength of the prevailing organisational culture. Nobody had written down the required behaviour in this regard, to wit Western dress, but even outsiders who are inducted into the Bank find out overnight that it is impossible for them to disregard this norm, and in no time at all learn to orient their behaviour to fall in line with the traditional stereotype.

Now, while expected dress forms may or may not so directly affect our efficiency and managerial style, let us mention a few other aspects of the same unwritten cultural norms in our institution which determine our behaviour pattern to a large extent. We have seen how an officer junior to his immediate boss by even a few months is expected to address him as "Sir" and not as "Mr. So-and-so". Now, there is nothing wrong in this, and this practice, like others, is on the way out. But the point is that this impersonal form of address remains a legitimate expectation of the senior about the behaviour of his junior. It is particularly intriguing to an outsider that, far from first names, even referring to one's boss as "Mr. X" in a conversation is usually avoided by a subordinate, rather like the Hindu wife avoiding her husband's name; the superior is ordinarily mentioned by his official designation (like

“The Dy. Secretary has not yet released the file” or “The Regional Manager wants it urgently”), although the form “X Sahib” has gained some currency in some of our offices. The situation becomes slightly ludicrous when we see two officers who were till the other day exchanging office-gossip and banter, suddenly adopting two entirely different kinds of behaviour (based on a strict superior-subordinate relationship) when one of them receives a promotion, and such is the hold of informal role prescriptions that both these officers feel quite comfortable in their new behaviour patterns. In the same category is the case of the subordinate being made to discuss matters with his superior continuously in a standing position (because that is what is expected, unless the junior is told to take a seat) for a period anywhere up to an hour, while the boss is comfortable in his swivel chair. This sort of thing of course happens when the subordinate has a comparatively junior status (say, a clerk or a junior officer) and the superior is somewhere, say, in the middle management level. The practice of summoning subordinate officers every now and then on the slightest of pretexts — and usually through messengers, ignoring the intercom altogether — is quite common, and probably has more votaries in the upper reaches of the organisational hierarchy.

All these behaviour patterns, the reader will please note, reflect the informal but very real expectations prevalent among our officers. In order, however, that one is not carried away with the impression that the extant behavioural expectations among our officers are totally lop-sided, and are completely inimical to managerial efficiency, it should be added that in actual practice the effect of these norms, unsatisfactory though they are, is somewhat less depressing than they might appear from the illustrations given above. The reason is that we are used to the traditional behaviour patterns and their imperfections do not impede the administrative process in any drastic manner. Moreover, as the author firmly believes, things are changing in our institution, at a pace much faster than ever

before, and we can optimistically look forward to a more "sensible" organisational milieu.

However, to continue with our discussion, of more importance to us are certain other types of behaviour expectations like the tolerance of criticism. Many persons, especially if they happen to be superiors, do not approve of any critical evaluation of their views by their subordinates, in spite of their vehement protestations to the contrary. Now this is very much a part of our organisational culture, as both sides (superior and subordinate) find nothing extraordinary in this attitude of the boss. The junior expects (for his experience suggests so) that the senior will not be really tolerant of contrary opinions of others (although he may like to appear open-minded). The question of actively soliciting suggestions based on a critical assessment of his views does not arise: the junior officer is supposed only to carry out orders of his senior, not gratuitously offer suggestions for improving matters. Another example is that of a superior refraining, God knows why, from calling a subordinate and explaining to him as to how he would like a particular item of work carried out; instead, he prefers writing out small slips indicating his instructions piecemeal every time a similar matter comes to him. This was indeed happening in an erstwhile District (of Branch Department) in the case of scrutiny of various control returns from branches where the nature of deviations, inaccuracies, and irregularities was easily categorisable under a few broad heads. Almost every return which was put up to the District Superintendent with coloured pencil remarks of the Sub-Accountant concerned about points calling for further action, came back invariably with a yellow slip containing an instruction to check whether a certain aspect of the subject-matter has been duly scrutinised. This was the system accepted on both sides: it never struck either of them that some general guidelines about scrutinising the returns could be discussed among the two officials for reducing the number of slips passing to and fro. The same

Superintendent was given to marking nearly every letter received from branches to one or the other of his two senior subordinate officers with the added words "Urgent". Imagine for yourself the situation where the majority of incoming letters was marked with "Mr. A" or "Mr. B" and the word "Urgent", when the two officials had clearly defined functions, which did not overlap, when the officials sat right outside the Superintendent's room, and when both the officials were being called in by the boss several times daily! Now, one may contend that this particular superior does not represent the true stereotype, and one may well be right. The examples have however been cited to make a somewhat different point — that the subordinates did not make any suggestions to their boss about the peculiar system of marking because, and this is the essence of the situation, they thought that such action on their part would be unconventional, that they were not expected to behave in that manner, that it was unbecoming of responsible officers like themselves to get worked up on such minor details, that it was just not done in our Bank. So there you have some illustrations of the pervasive influence of the organisational culture in the role expectations of our officials. These illustrations may appear to the reader to be somewhat trivial but to the officials who are involved in the situations during a major part of their working lives they are of considerable significance.

It is thus clear that the role expectations held by a particular member for the focal person may include the member's own preferences about the kind of personal attributes, beliefs, and relationships the focal person should have. It is not too difficult to realise that role expectations have a strong tendency to cover matters extraneous to the officially laid down duties and responsibilities. This is so despite the fact that the relative job descriptions may have been prepared by officials (like the Personnel Manager) belonging to the same role set. Thus the presence of members even in the same role set who are fully aware of the job description of a particular focal person does not

necessarily result in the role expectations of all members being strictly in consonance with this description. For instance, in the case of a Regional Manager who, because of past experience, is an acknowledged expert in any specific field, say, agricultural finance or industrial relations, it is quite conceivable that he would be sought for by the Dy. Secretary (Operations) and the other Regional Managers at the Local Head Office for specialist advice instead of the Development Manager (Agriculture) or the Personnel Manager whose role it is to render the advice. In the course of time, if the officials on the specialist side are unable to build up adequate expertise, it is not unlikely that there would be a wide difference between the assigned role of the Regional Manager concerned and the role expectations of various members of his role set. There is thus a need for ensuring that various roles develop in such a manner that the prescribed role associated with a position is, as far as possible, in line with the role expectations connected with it.

Role Sending

But although we may be convinced about the need for such a congruence, in reality this may quite possibly remain an ideal because there are different, sometimes conflicting, role expectations about a focal position from the various members of a role set. For, all the time the members of the role set are measuring and evaluating the performance of the focal person against their own respective norms. This process of evaluation does not however remain confined to the mind; the mental attitude is reflected in the behaviour of the members of the role set. For instance, when a Regional Manager receives a Branch Manager (focal person) calling on him, with more than his usual enthusiasm and cordiality, listens to the problems at the Branch attentively, accepts all the suggestions put forward by the visitor, and issues orders to his department officials for necessary follow-up action, he is in fact behaving in a manner which reflects his mental attitude

concerning the satisfactory role performance by the Branch Manager, evaluated in terms of what the Regional Manager believes is the proper way the role should be played.

The example given above is, of course, one in which the expectations of the Regional Manager (a member of the role set of the Branch Manager, the focal person) were visibly and directly reflected in his behaviour. There may however be cases in which the expectations of members of a role set are not so clearly evident in their behaviour towards the focal person, and are reflected in a more subtle or indirect manner. Consider, for instance, the Branch Manager who casually mentions in a conversation with his Manager (SIB), the focal person here, that in the matter of keeping continuous contact with one's customers the Manager (C & I) has been doing particularly well. This would be an indirect and subtle indication that, according to the Branch Manager, maintaining customer contact is an important part of the role of the Manager (SIB) and that he had better wake up and do something about this aspect of his work. The expectations of the members of a role set thus get conveyed or "sent" to the focal person. We may refer to the aggregation of the transmitted expectations of the members of the role set (whom we may also term as *role senders*) as the *sent role*.

Role Pressures

The transmission of role expectations is usually with the purpose of influencing the focal person to conform to the expectations of the role senders. Hence the various acts performed in role sending can be called *role pressures*. Some of these pressures are, of course, official, like the directions from the superiors to their subordinates regarding the achievement of organisational tasks. Other pressures, however, may be primarily aimed at creating and maintaining a working climate which is comfortable to the role sender himself. It is no matter, in such situa-

tions, if the performance of the focal role is adversely affected, so long as life can be made pleasant for the role sender. The sources of these pressures may be formal or informal, legitimate or otherwise; the nature of the pressures may be subtle or explicit, encouraging or discouraging, suggestive or directive. The precise form or combination of ways in which the pressures are brought about would depend on the kind of influence which is attempted to be exerted over the focal person. The most commonly observed form of role pressures in organisations is that of sanctions which the role sender uses to influence the behaviour of the focal person, through gratifications and deprivations for conformity (that is, compliance with the requirements of formal organisation) or otherwise. It is desirable that these sanctions are clearly visible to all personnel in an organisation, if the formal organisation has to be effective.

Received Role

We have talked about role pressures which go to constitute the sent role. It is through these pressures that the role sender transmits to the focal person the behaviour and content of his position — the do's and don'ts concerning the position. It is one thing however to have a sent role and quite another whether the role is perceived by the focal person in the same form. Thus, we can visualise a focal person as having a sent role, made up of the role pressures generated by the members of his role set, as well as a somewhat different role, called the *received role*, which consists of what pressures he thinks he has received from the role senders. It is thus not always that the sent role and the received role would be congruent. Much would depend upon how the focal person perceives the organisational reality, for his behaviour is conditioned as much by the role pressures (which may be termed the objective environment) as by what he perceives to be the organisational requirements (that is, his subjective or psychological environment). Hence the chances are that the received role would fail to correspond exactly to the

sent role. But there is little doubt that the behaviour of a focal person would be conditioned primarily by the received role, it being the most immediate influence.

Role Forces

Again, each role pressure sent from the external or objective environment by the members of a role set gives rise to a corresponding psychological force within the mind or internal environment of the focal person. These forces, generated in the psychological world of a focal person, are essentially motivational in nature and are known as *role forces*. It does not necessarily follow that the role forces will be equal, either in strength or in nature, to the role pressures which were initially responsible for generating them. Indeed, in real life the psychological role force may sometimes turn out to be exactly the reverse of what the pressure was intended to achieve; this may be so because the pressure was not "appreciated", leading to antipathy and resistance. Some of us may have come across occasions when an otherwise ordinary piece of work is not done satisfactorily by a capable subordinate for no ostensible reason. Actually, when we look deeper into the incident, the cause may well be in our over-eager attitude and close supervision of the job which could have aroused some resentment in the employee owing to an implied lack of confidence in his ability to do the work by himself. This rejection of the subordinate's sense of responsibility, implicit in our behaviour, serves to generate a response which is opposite to what we would normally expect.

Apart, however, from the internal role forces aroused directly by role pressures, there are usually other motivational forces generated from such sources as the focal person's own idea of how he ought to play his role: that is, he sends a specific kind of role to himself. In effect, he conveys to himself the requirements, as he perceives them, of his role in terms of goals, tasks, and behaviour. The Area Superintendent, for instance, has, in many ways, to dictate to himself his duties and responsibilities as the

Bank has not laid them down in a final and categoric manner (on purpose, of course, and for good reason). To a great extent, therefore, an Area Superintendent has to determine the tasks which should form part of his role, within the broad framework visualised by the Bank. The Area Superintendent, like several other functionaries in the present organisational structure, would thus be doing a lot of "self-sending" of role requirements. This process would not naturally cease with the attainment of role clarity, because each person will continue to have his own ideas about role requirements and would consequently be transmitting these expectations to himself. Hence external role pressures account for only a part of the psychological role forces present in a focal person, and do not condition his behaviour fully.

(To be concluded)

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- 1 For a description of the salient features of the Bank's new organisational structure, as well as of the new set of roles, see Tushar K. Das, "Reorganisation in State Bank of India", "Lok Udyog", November 1971, pp. 781-792. The article was reprinted in State Bank of India Monthly Review, December 1971, pp. 428-451.
 - 2 See Bruce J. Biddle and Edwin J. Thomas, "The Nature and History of Role Theory", in Bruce J. Biddle and Edwin J. Thomas (Eds.), Role Theory : Concepts and Research, John Wiley & Sons, Inc., New York, 1966, pp. 3-19.
 - 3 K. D. Benne and P. Sheats, "Functional roles of group member", Journal of Social Issues, 1948, 4 (2), pp. 41-49.
 - 4 Daniel Katz and Robert L. Kahn. The Social Psychology of Organisations, Wiley Eastern Private Limited. New Delhi, 1970, p. 37.
 - 5 The definitional content of the ensuing discussion is largely based on the chapter on "A Theory of Role Dynamics" in Robert L. Kahn, Donald M. Wolfe, Robert P. Quinn, J. Diedrick Snoek, in collaboration with Robert A. Rosenthal, Organisational Stress : Studies in Role Conflict and Ambiguity, John Wiley & Sons, Inc., New York, 1964, pp. 11-35.

Management of Change*

Dr. P. Sambaiah

Problem Stated

“Change” is understood as making the form, nature, content, etc., of something different from what it is or what it would be if left alone. For the purpose of this study, the process through which a proposed change is effected is treated as the management of change. The problem, thus, boils down to ‘how’ a change is effected and what are the different techniques adopted to effect change.

Since the basic aim in making a change is to reap its complete benefits, it would be imperative to minimise, if possible to eliminate, any adverse reactions (called resistance) of all those who are affected by the proposed change. Minimisation of resistance leading to maximisation of the acceptance and whole-hearted implementation of the proposed change is the basic strategy of the systematic approach to the management of change. Change is always

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assumed for the improvement and improvements may emanate from innovation. While it is noted that conceptually the management of 'change', and of 'innovation' are different, it is the former that tests the management's capacity to effect a change designed by experts — internal or external. As such, it is the management of change that should attract our attention.

Why Change ?

'Change' may be warranted either by external stimuli or by an internal need. The former cannot be forecasted and may demand changes that may not be conducive to achieve the corporate goals. Since external stimuli like the Government's policy, economic boom or recession, statutory stipulations, public expectations, political commitments of the ruling parties, etc., etc., cannot be said to have been set in motion by those effecting a change, there is a possibility of the resulting change being accepted with less resistance, and/or perhaps as a fait accompli. In the case of 'change' deliberately initiated by internal need resulting from self appraisals, the likelihood of resistance of all those affected by the proposed change is more. Whether change is demanded by external stimuli or an internal need, the need for it should have been keenly felt for prompt and whole-hearted action. Randomness of external stimuli and the uncertainty of the impact of change made in response thereto make such change, in the long run, less useful and lasting, whereas a change initiated by an internal action, though likely to face more resistance, can be well designed, planned, initiated and implemented by avoiding the pitfalls of resistance or at least minimising it to a large extent.

Imposed and Initiated Change

Since a change may be brought in response to either external stimuli or an internal need, it can be either imposed by anticipated or unexpected external stimuli or initiated (to fulfil an internal need). In the case of im-

posed change, the question of management of change may not normally arise as the change is thrust on the management who, with its responsibility to preserve the organisational entity, generally takes change as fait accompli. In the case of initiated change to achieve an organisational goal like growth with profit—an internal need—all the problems related to the management of change arise. By definition, it is the initiated change and its management on an on-going-basis that should be and are covered in this present discussion on the management of change.

It should always be remembered that a change is not a static or one-shot process but a continuous one. Foresight in seeing the need for a change on an on-going-basis and initiating and managing the same will have an impact on making an organisation in future a living entity with its corporate goals. To be successful, each organisation should entrust the responsibility of 'looking' for a desirable change and the means (or media) to effect it to one department placed fairly nearer to the top management.

Medium of Change

A change can be brought through any one or all or a combination of the media available in the four elements of an organisation, viz., (1) structure, (2) tasks, (3) technology and (4) people. Attitudinal and required behavioural changes in the people with varied backgrounds and commitments can be effected over a longer period through a time consuming and uncertain process of education. 'People', therefore, do not suit as a good medium of change. 'Technology' does provide a good medium of change to that organisation which has a capital intensive mechanised process of production. But in a service industry like banking which, in India, is still a labour intensive industry, technology fails to constitute a good medium of change. Basic banking tasks are limited in number and uniform in nature, though they are performed at far and wide centres with non-comparable environs. These tasks are (a) deposit accept-

ance, (b) credit sanction and disbursal, (c) money transmission and (d) agency services. When these tasks are performed at the branches by different work stations, viz., divisions and the people associated with them, none of them, *per se*, can be called as profit centres. To constitute a profit centre, a division should perform an income generating task like credit sanction and disbursal, and cost incurring task like deposit acceptance. Thus, there will be a necessity to combine the tasks to be performed by a division to make it a profit centre capable of contributing its mite to the organisation's effort to achieve the desired profit level. A combination of the basic tasks provides a good medium of change. It should preferably be used only at the branch level. However, due to limited business potential available at small centres, it may not be possible to have a task-mix-approach to effect the change through this medium. To this extent, tasks do not provide a good medium of change. In contrast to these three media, 'structure' provides a vast scope for effecting a total change. A change in the organisational structure is, however, evolved from the likely task-mixtures and such change would have a lead effect necessitating appropriate change in other elements. Structure, by itself, would be of little importance unless it facilitates performance of tasks in a desired pattern. While tasks may be changed in response to local demands for banking services, the branch structure, with a provision to create as many profit centres (having to perform total tasks) as needed from time to time, remains uniform and provides the best medium of change — a total change.

Whether 'Resistance' or 'Reaction'

Inasmuch as the word 'resistance' connotes a negative meaning, as also the fact that a change need not always necessarily be resisted, it would be better to use the word 'reaction' having a positive, negative and neutral connotation. Wherever necessary, we have used the word 'reaction' to reveal the general features of the word 'resistance'.

Why do People React to Change?

It is the attitude towards the change of all those who are likely to be affected that constitutes the source of reaction. The factors that influence attitude are¹:

1. Predisposed feeling(s) about any change.
2. Feeling of insecurity and redundancy.
3. Relevance of feelings about changes and insecurity: Element of uncertainty.
4. Cultural beliefs and norms relating to work and organisation.
5. Trust in and loyalty to the management.
6. Historical events as a guide to the present.
7. Manner of change: Formal, informal, sudden or slow, authoritarian or appealing, etc.

Resistant feelings have functional relationship with above factors as expressed below in the form of a formula :

$$R = f \left[\begin{array}{c} \text{Constants} \\ \frac{A}{S} \end{array} \right] \left[\begin{array}{c} \text{Variables} \\ \frac{(B)+(C)+(D)+(E)}{T [(U)+(V)+(W)]} \end{array} \right]$$

Where :

R = Resistant feelings.

A = Predisposed apprehensiveness about any change.

B = Specific apprehensions unanswered.

C = Conflicts with cultural beliefs.

D = Past events prejudicial against change.

¹ For a detailed discussion of these factors please see: A Manager's Guide to Making Changes: Judson S. A., John Wiley & Sons Ltd., New York, 1966, pp. 17-39.

- E = Irritation with the manner of change.
S = Personal sense of security.
T = Trust in management, union and workgroup.
U = Hopeful expectations confirmed.
V = Past events prejudicial in favour of change.
W = Satisfaction with the manner of change.
f = Indicates the functional relationship between constants and variables, on the one hand, and, the resultant resistant feeling(s), on the other.

An interaction of the positive factors (denominators) and the negative factors (numerators) may result in positive or negative co-efficients. These co-efficients, being non-measurable statistics, would be an admixture of positive and/or negative expressions unfolding a spectrum of reactions ranging, as can be seen below, from an enthusiastic co-operation and support to a deliberate sabotage.

How do People React to Change?

Depending on the degree of intensity of resistant feeling(s) the people react to change in different ways. Their behaviour reflects the reaction which differs from person to person, from place to place and from time to time. Possible behavioural pattern of the people resembles a spectrum.

Spectrum of Individual and Group Behaviour Patterns²

(1) Acceptance

- (a) Enthusiastic co-operation and support.
- (b) Co-operation.
- (c) Co-operation under pressure from management.
- (d) Acceptance.
- (e) Passive resignation.

² Ibid. p. 41.

(2) Indifference

- (a) Indifference.
- (b) Apathy: loss of interest in the job.
- (c) Doing only what is ordered.

(3) Passive Resistance

- (a) Regressive behaviour.
- (b) Non-learning.

(4) Active Resistance

- (a) Protests.
- (b) Working to rule.
- (c) Doing as little as possible.
- (d) Slowing down.
- (e) Personal withdrawal.
- (f) Committing errors.
- (g) Spoilage.
- (h) Deliberate sabotage.

Secret of Success in Effecting a Change

Success in effecting a change lies in the management's capacity to predict the likely mix of the behavioural patterns and based on it to minimise the resistance; conceptually, resistance can be minimised by :

(1) Security and Guarantee

A primary prerequisite to dispel fears of redundancy of those effected by change.

(2) Involvement, Participation and Acceptance

The most effective motivating factors propelling the involved to whole-heartedly implement the change.

(3) Leadership of the Change Initiator

An element that boosts the possibility of greater involvement, participation and acceptance.

(4) *Understanding and Discussion*

An educative process that lends strength to smooth transformation through better communication.

(5) *Timing*

Strategic elements with which 'change' is ordered for initiating the change as also the time to be taken for transformation.

(6) *Persuasion, Rewarding and Bargaining*

A dependable element, but a time consuming process specially when a large number of employees are to be persuaded.

(7) *Flexibility and Tentative Approach*

An outstanding feature of a successful management to have an open minded approach to change.

(8) *Criticism*

If constructive, it enables to examine the necessity and scope for modifying the change.

(9) *Compulsion and Imposing Authority*

Results in forced acceptance. Though not a very desirable element, it will help imposition of a good change when people involved are too many and hold too diversified opinions or do not spontaneously respond.

Do People Really Resist a Change ?

'Change' and 'resistance' to change are assumed to go together and it has become almost classical in the discussion on the management of change to invariably have a discussion on resistance. It would, therefore, be pertinent to question this assumption by asking whether people really resist a change. This assumption does not find support from the authorities on management theory. To quote Peter Drucker : "It is not true, as a good many industrial psychologists assert, that human nature resists change. On the contrary, no being in heaven or earth is greedier for new

things. But there are conditions for man's psychological readiness to change. The change must appear rational to him; man always presents to himself as rational even his most irrational, most erratic changes. It must appear an improvement and it must not be so rapid or so great as to obliterate the psychological land marks which make a man feel at home: his understanding of his work, his relations to his fellow-workers, his concepts of skill, prestige and social standing in certain jobs and so forth." However, the resistance (to change that appears to be a rational, improved, and sustaining force to satisfy the cultural and social needs) cannot be totally ruled out due to differences in the individual perceptions of the likely impact of change by the people and their representative unions. In reality, such resistance, though appearing to be resistance to change, is found to be a firm determination to get some thing out of the change³. Resistance to get something can be reduced to zero by devising suitable schemes to improve wages, promotion prospects, job diversification and job enrichment and satisfaction. Thus, any change that does not threaten the job security of the people, if resisted, can be broadly said to be the resistance to get something out of change. Such resistance would be a common feature of all those who have a strong trade union to protect their rights and also more in the case of those who are well protected under labour laws of the country. Though job security is not threatened by any change, the possibility of its meeting with unreasonable resistance cannot be totally ruled out. To insulate the change against the onslaught of unjustifiable resistance, it is essential that a systematic approach to making change should be adopted. Such approach enables to meet, to quote Peter Drucker, "demand for the worker's ability to change which requires positive action to make it possible for him to change". Initiative for taking such positive action should be taken by the management to

3 Industrial Organisation: Theory and Practice: Joan Woodward, Oxford University Press, London, 1968, p. 194.

help effective initiation, implementation and the follow-up with ease and adequate authority.

Phases of the Systematic Approach ⁴

Managerial actions for realizing any change systematically have at least following five phases; adherence to sequence of the action phasing, though essential, should not be considered an end in itself.

1. Analysing and planning the change;
2. communicating about the change;
3. gaining acceptance of required changes in behaviour;
4. making the initial transition from the status quo to new situation; and
5. consolidating the new conditions and continuing follow-up.

With the brief theoretical background on the management of change discussed in this paper, it may be possible to examine how a change can be effectively managed so that there would be full acceptance of and least resistance from the people who are affected by it as also to make it a more lasting one.

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⁴ For a detailed theoretical discussion of the phases of managerial action see Judson: Op. cit. pp. 141-163

Report of the Committee on Taxation of Agricultural Wealth and Income

The Committee, headed by Dr. K. N. Raj and appointed to examine ways and means of mobilising tax resources from the agricultural sector, has recently submitted its report. The Committee's main recommendations are discussed in what follows.

Background

The agricultural sector contributes about 50 per cent to the national income. The agricultural income has increased considerably in recent years due to developmental efforts of the Government and due to the spread of the green revolution. But the sector has not made commensurate contribution to the national exchequer. The yield from the existing taxes on agriculture — land revenue, cesses and sur-charges based thereon, crop cesses and agricul-

tural income tax — account for hardly 1 per cent of the net domestic product of the agricultural sector of the country as a whole. What is more, the incidence of the existing taxation on agriculture has not been uniform throughout. The incidence was as low as 0.24 per cent in Orissa and Punjab and was 1.34 per cent in Rajasthan. Apart from the lack of uniformity in incidence among different regions, the existing system of direct taxation of agriculture was found wanting in progression.

Major Recommendations of the Committee

The most important recommendation of the Committee is for the introduction of the Agricultural Holding Tax (AHT) in place of the existing tax system.

1. **Agricultural Holding Tax :** The tax should be levied on operational holding, which has been defined by the Committee as owned land minus land leased out plus land leased in. Only registered leases should be taken into account while assessing the size of the operational holding to discourage illegal or concealed leasing of land. The tax has to be related to rateable value of the operational holding.

Factors affecting productivity in different parts of the country and for different crops have to be taken into account for fixing the rateable value. The important factors affecting the productivity differences in different regions are : (1) the soil and climatic conditions, (2) conditions of water supply and (3) crops grown. For the purposes of fixing the rateable value of the land in different areas, the country is proposed to be divided into sufficiently large number of soil/climatically homogenous districts or tracts. For each such district or tract, norms of output for different crops per hectare for each year will be worked out on the basis of the estimates of yield for the previous 10 years. This average output will be valued at the relevant average harvest prices of the preceding three years. From the value of the gross output of the crops thus arrived at, cost of production (other than expenses on irrigation) and depre-

ciation of assets will be deducted. The norms arrived at in the above manner would form the rateable value of a hectare of land growing a particular crop in a particular district or tract. To provide for the cost of development, a development allowance will be given for all agricultural holdings at the rate of 20 per cent of the rateable value subject to a maximum of Rs. 1,000. For each district or tract, there will be a schedule of rateable value of land per hectare under different crops or crop groups. One of the attractive features of the new tax is that the above schedule will be revised every year taking into account the crop yields for the preceding 10 years, the harvest price for the preceding 3 years and changes that may take place in the cost of cultivation of different crops. From the agriculturists' point of view, the scheme is attractive as the rateable value of land will be considered to be zero if in a given year the average output of crop in a district is less than half the average output of the earlier ten years. There are provisions for tax relief in the case of crop failures. By taking into account various factors affecting productivity differences in different parts of the country, the proposed tax aims at introducing uniformity in its incidence. Besides, unlike the present system of land revenue, the A.H.T. is progressive inasmuch as the rate of tax increases with the amount of rateable value of holdings. For holdings of rateable value below Rs. 600, the Committee has fixed a flat rate of Re. 1 per holding.

The implementation of the A. H. T. will be made in three phases. In the first phase, the tax will be introduced in place of land revenue for all operational holdings with rateable value of Rs. 5,000 or more. The extension of A.H.T. to holdings with rateable values less than Rs. 5,000 but above Rs. 2,500 will be made during the second phase, according to the discretion of the State Governments. In the third phase, the tax will be levied on holdings with rateable value of less than Rs. 2,500, subject to the discretion of the State Governments. For such holdings, a census of land utilisation and recording of crop acreage will be done only once in five years. Charitable and reli-

gious trusts will not be exempted from this tax. Where the operational holdings stand in the name of a trust or a co-operative society, the same will be notionally apportioned among the beneficiaries on the basis of their income sharing. The respective shares will be added to the families to which the beneficiaries belong. Where these are not apportionable, the trust will be assessed for A.H.T. at the minimum rate of 20 per cent. The same principle will apply to holdings operated by co-operatives. Agricultural companies also are liable to pay this tax subject to a minimum of 20 per cent of the rateable value. As regards the holdings of plantation companies, the present system of agricultural taxation will continue. But the land cultivated for non-plantation crops will be liable to the tax like any other agricultural company.

The Agricultural Holding Tax is expected to add Rs. 150 crores per annum if the A.H.T. replaces land revenue on all holdings with a rateable value of Rs. 5,000 and above, and Rs. 200 crores if the tax is extended to all holdings with a rateable value of Rs. 2,500 or more.

2. Integration of Agricultural and Non-agricultural Income : The existence of two tax authorities, viz., the Centre and the States and the different rates and rules regarding agricultural and non-agricultural income-taxes have led to considerable amount of tax avoidance. The Wanchoo Committee, which had gone into the question earlier, had recommended that the Central Government should assume power to levy and administer a tax on agricultural income more or less on par with other incomes. But this remedy is riddled with practical difficulties inasmuch as it requires the amendment of the Constitution, transferring the right to tax agriculture from the States to the Central Government. The Raj Committee has, therefore, recommended partial integration of taxation of agricultural and non-agricultural incomes. According to the Committee, income from these two sources should be aggregated for tax computation purpose. While the agricultural

component of the income will not be taxed, the non-agricultural component will be subject to a higher rate as if the latter was placed in the top slabs of aggregate income. This would result in a higher average rate of tax.

3. Taxation of Agricultural Property: The Raj Committee has recommended that the A.H.T. should be supplemented with a tax on agricultural property, integrated with other wealth tax. The Committee is in favour of raising the basic limit for wealth tax from the present Rs. 1 lakh to Rs. 1.5 lakhs and abolition of various exemptions provided at present. With this view, the Committee has recommended lowering of the rates of wealth tax once the numerous exemptions are done away with. Value of shares in companies and co-operatives should also be included in full in the taxable wealth of shareholders. For valuation of farm lands, the method of income capitalisation has been recommended. According to the Committee, a simple and adequate method will be to take 4 to 6 times the rateable value of a holding, averaged over a period of years.

4. Capital Gains Tax : Taxation of capital gains on transfer of all agricultural lands irrespective of their location is recommended by the Raj Committee. Gains from transactions in assets held for not more than a year will be treated as ordinary income and taxed accordingly. To mitigate inequity involved in the progressive taxation of capital gains, the method of pro-rating the long-term capital gains over a number of years without reopening any back year's assessment is recommended.

As capital gains are realised only when the assets are sold, the Committee feels that alternatives have to be found out in order to get a part of the capital gains accrued, but not realised. This is necessary in view of substantial appreciation of land values as a result of

the development projects sponsored by the Government. In this context, the betterment levy was found unsuitable by the Committee as an instrument for recovering the capital cost of development projects.

According to the Committee, the expected additional revenue likely to be realised, if the tax on agricultural wealth and capital gains is operated on an integrated basis, will be around Rs. 100 to Rs. 150 crores.

5. The Unit of Assessment of Tax: The unit of tax assessment, according to the Raj Committee, should be a family and not individuals. The family should consist of husband, wife and minor children. This recommendation goes against the Wanchoo Committee's recommendation. But it may be recalled that as early as 1970-71, the Prime Minister had promised to examine the question of aggregation of income and wealth of husband, wife and minor children for the purposes of income and wealth taxation. The present system of treating individuals as the unit of levy has opened many avenues of tax evasion. As a corollary to this recommendation, the Committee has recommended the de-recognition of the Hindu undivided family as an entity for the purposes of income and wealth taxation. It may be recalled that the Wanchoo Committee has observed that the institution of Hindu undivided family has been widely used for tax avoidance. Some estimates place the tax avoidance under this provision at Rs. 300 crores per annum. In order to mitigate the adverse effects of such clubbing, the Committee has provided for the deduction from the income of the spouses when both are employed outside the household at the rate of 10 per cent but with a ceiling of Rs. 2,000.

Other Recommendations

Income from livestock breeding and poultry and dairy farming should be subject to income tax. Irrigation water should be priced in such a way as to cover the cost of providing it.

The merit of the new tax vis-a-vis the land revenue is that the yield from the former will rise along with the increase in the yield from the land as a result of technological advances. But the problems in the implementation are really stupendous, time consuming and expensive, for rateable values have to be computed for all the agricultural holdings in the country taking into account, soil and climatic factors, crop pattern and price movements of both inputs and outputs. Unlike Agricultural Income Tax, the Government has to serve notice of the tax liability on each family on the basis of assessed rateable values. This assessment has to be revised every year for holdings with rateable value above Rs. 2,500. This will impose severe strains on the tax administration machinery of the State Governments. When administration works under strain, it may be possible that the equity considerations are placed at a discount. It is quite likely that under these conditions, the notional income from holdings which are used in calculating the rateable values may differ widely from the actual income. In this case, one of the two merits of the new tax, namely, added revenue and equity may tend to be lost.

Legal Decisions

On Banking

ON “ADEQUATE CONSIDERATION”—
MEANING OF:

Income-tax Act 1961 -Section 64 (iii)- Scope of

Potti Veerayya Sresty

vs.

Commissioner of Income Tax, A.P.

June 28, 1971

(Andhra Pradesh High Court)

Contributed by S. R. Darekar

On June 19, 1962, the assessee transferred promissory notes and cash of the total value of Rs. 40,000 to his wife. The assessee's wife started her own cloth business with the investment made out of the said assets. She declared an income of Rs. 4,934 from the said cloth business in the return of income filed by her. The Income-tax Officer included the said income in the assessee's total income as he was of the view that it arose to the assessee's wife out of the assets transferred to her without adequate consideration by the assessee and was, therefore, includible in the assessment of the assessee under Section 64 (iii) of the Act.

The assessee's contention was that the assets of the value of Rs. 40,000 were transferred by him to his wife in order to obtain her consent for the adoption of a son by him. Both the appellate authorities, viz., Appellate Assistant Commissioner in the first appeal and the Tribunal in the second appeal rejected the assessee's contention and upheld the inclusion of the said income in the assessee's

total income under Section 64 (iii) of the Act. The assessee preferred an appeal to the High Court.

The High Court considered the provisions of Section 64 (iii) of the Act and observed that the income arising to the wife could be included in the total income of her husband, if the following conditions were fulfilled: (1) there must be a transfer of assets by the assessee to his wife; (2) the transfer in favour of the wife by the assessee must be otherwise than for adequate consideration and (3) the income in question should have arisen or accrued to the wife directly or indirectly from the assets transferred to her by her husband.

Having held that the income, in question, had been earned by the assessee's wife out of the assets transferred to her by the assessee and that the assets in question had been transferred by the assessee to his wife, the High Court considered as to what constituted in law "adequate consideration".

The High Court observed that the term consideration was a legal term and it had not been defined in the Income-tax Act. Consideration to support a contract under the provisions of the Indian Contract Act was different from "adequate consideration" under Section 64 (iii) of the Income-tax Act. Since the Income-tax Act insists that the consideration for transfer must be adequate, there must be some means to measure the adequacy of the consideration. That is to say, the consideration that supports the transfer should be one, the value of which can be measured in terms of money or money's worth. Religious or spiritual benefit is not consideration which could be measured in terms of money or money's worth.

Accordingly, the High Court held that the assets were transferred by the assessee to his wife otherwise than for adequate consideration, the income in question arose directly from the transfer of assets so made and consequently it was includible in the assessee's total income.

(Shri S. R. Darekar is the Officer-in-Charge in the Income and Wealth Tax Section at the Bank's Bombay Main Branch.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 27-10-1972	A Month Ago 29-9-1972	A Year Ago 29-10-1971
State Bank of India			
Aggregate Deposits :	1,779.6	1,745.5	1,458.5
Demand (Exclusive of inter-bank transactions)	810.3	789.9	644.9
Time (-do-)	969.3	955.6	813.6
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,127.4	1,187.7	1,057.2
Investments in Government Securities	620.3	470.5	401.1
Subsidiary Banks			
Aggregate Deposits :	461.0	457.8	391.3
Demand (Exclusive of inter-bank transactions)	189.7	187.8	160.6
Time (-do-)	271.3	270.0	230.7
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	357.0	339.4	308.7
Investments in Government Securities	99.6	96.9	85.2
All Scheduled Commercial Banks			
Aggregate Deposits :	7,891.5	7,801.1	6,616.7
Demand (Exclusive of inter-bank transactions)	3,370.9	3,356.3	2,832.5
Time (-do-)	4,520.6	4,444.8	3,784.2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,225.5	5,167.5	4,838.1
Investments in Government Securities	2,238.6	2,068.7	1,568.1

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	June 1972	March 1972	June 1971
State Bank of India			
No. of Offices	2,575	2,532	2,302
Finance to Small Scale Industries*:			
No. of Units Assisted	39,826 @	39,289	35,700
Limits Sanctioned	278.83 @	266.40	246.13
Outstandings	192.99 @	179.98	159.01
Direct Finance for Agriculture :			
No. of Accounts	1,87,931	1,85,095	2,05,584
Limits Sanctioned	66.29	64.57	69.96
Outstandings	45.56	44.31	47.45
Indirect Finance for Agriculture :			
No. of Accounts	885	906	990
Limits Sanctioned	117.49	94.51	127.06
Outstandings	62.30	34.63	57.97
Export Finance :			
Outstandings	116.11	118.13	101.19
Subsidiary Banks			
No. of Offices	1,406	1,357	1,236
Finance to Small Scale Industries*:			
No. of Units Assisted	20,713	20,307	18,371
Limits Sanctioned	95.53	95.77	88.71
Outstandings	54.31	56.67	46.00
Direct Finance for Agriculture :			
No. of Accounts	63,497	63,066	63,998
Limits Sanctioned	30.99	31.13	30.91
Outstandings	18.78	19.40	21.07
Indirect Finance for Agriculture :			
No. of Accounts	778	861	648
Limits Sanctioned	18.54	16.97	8.01
Outstandings	6.79	7.19	8.94
Export Finance :			
Outstandings	14.91	15.11	12.46

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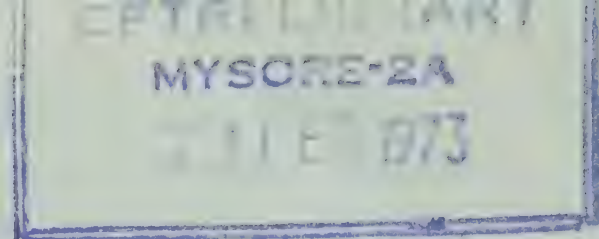
* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 27-10-1972	A Month Ago 29-9-1972	A Year Ago 29-10-1971
(Amounts in rupees crores)			
1. Money Supply with the Public	8,269	8,174	7,445
(a) Currency with the public ...	4,743	4,668	4,479
(b) Deposit money with the public	3,526	3,506	2,966
	August 1972	July 1972	August 1971
2. Foreign Exchange Reserves ...	801.2	823.2	781.1
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	8½	8½	8½
(c) State Bank of India Hundi Rate ...	8¾-10½	8¾-10½	8¾-10½
(d) Call Money Rate (Bombay) ...	3.3	3.0	4.7
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

		January 1972	December 1971	January 1971
4.	Index Number of Industrial Production (1960=100)			
	General Index ... (Adjusted)	192.3	191.3	183.0
		Week ended 28-10-1972	Week ended 30-9-1972	Week ended 30-10-1971
5.	Index Numbers of Wholesale Prices (1961-62=100)			
	All Commodities ...	210.3	207.6	189.4
	Food Articles ...	246.5	244.5	211.0
	Liquor and Tobacco	239.8	240.8	200.3
	Fuel, Power, Light and Lubricants ...	180.3	178.8	173.6
	Industrial Raw Materials ...	206.8	194.6	193.4
	Chemicals ...	199.2	199.2	198.1
	Machinery and Transport Equipment	169.3	167.7	160.2
	Manufactures ...	175.8	175.1	167.4
		June 1972	May 1972	June 1971
6.	Consumer Price Index Number for Industrial Workers — All-India (1960=100)	201	196	187
7.	Foreign Trade	July 1972	June 1972	July 1971
		(Rupees in crores)		
	Total Imports ...	148.8	138.3	166.9
	Total Exports (including re-exports) ...	141.4	140.9	148.9



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Changed Role of a Banker

Charles Abraham

After the attainment of political independence, the energies of our nation were directed towards constructive efforts in the direction of orderly and planned economic growth. In this great national endeavour, the Indian banks, and particularly the State Bank of India, have played a notable part. The vast socio-economic changes that have taken place after Independence as a result of the first four Five Year Plans have changed the complexion and fabric of our banking system. The old fashioned view that a banker is only a repository of the savings of the community has given place to a more positive concept that the banker owes a paramount duty to the people to employ prudently and purposefully the funds entrusted to him along productive and socially desirable channels with the object of achieving economic growth combined with stability for ensuring the welfare of the common people. As a result of this change in outlook and attitude, the banking horizon has been steadily expanding and our banking system has grown considerably in depth and dimension, both geographically and functionally.

Branch Expansion

The number of offices of commercial banks in 1960 stood at 5,027, whereas at the end of June 1972, the number was 13,620. Also, during the same period, the number of rural and semi-urban offices increased from 831 and

2,512 to 5,267 and 4,351 respectively. The average population per office declined from 87,000 to 42,000 during the same period. This phenomenal growth in the number of bank offices in the country has no parallel in the history of any other developing countries of the world. But expansion has been not only quantitative but also qualitative in the sense that there has been a vigorous attempt at taking banking to the rural India and bringing the rural economy under the organised banking sector. In the process, banks have no doubt been put to a considerable amount of strain and a measure of consolidation at this stage has become a desirable objective. As a result of this wide expansion of the branch network, there is also need for establishment of effective communication and control mechanisms to cover a far-flung system in order that the top management's thinking on various matters percolates to the lowest level of the staff and to the remotest office.

Deposit Growth

Commercial banks' deposits were Rs. 1,052 crores in 1947, but they now stand at an impressive figure of over Rs. 8,000 crores. This vast expansion in deposits has been mainly due to large branch expansion, deficit financing by the Central and State Governments over the Plan period, and the rising industrial and agricultural incomes. While this progress in deposit growth is certainly very encouraging, there is no room for complacency and we still have a long way to go before we can come anywhere near the advanced countries either in per capita deposits or the share of deposits in the national income or total money supply. Today, commercial bank deposits in our country are roughly 18 per cent of national income as against 80 per cent in Japan, 60 per cent in Australia, 52 per cent in Germany, 49 per cent in the U.S.A., 43 per cent in Canada and 35 per cent in the U.K. In fact, even in other developing countries like Argentina, the percentage is of the order of 20 per cent.

This brings out clearly that the banking system has to do much more to mobilise bank deposits faster in terms of percentage of total national output. It calls for a deeper study of preferences of various customer groups, which constitute the market, and new schemes and new types of facilities tailored to meet their special requirements will have to be made available to them if we are to introduce banking to the hitherto unbanked sections of the community. The task is by no means easy but judging from the performance of the banking system in the last two decades, particularly in the last few years since nationalisation of the major banks, the goal is certainly not unattainable over a period of time.

Bank Credit

It would be no exaggeration to say that it is in regard to the goals, objectives, and directions of bank credit that the most significant changes have taken place during the past few years. In quantitative terms, commercial bank credit, which amounted to barely Rs. 485 crores in 1947 and Rs. 1,293 crores in 1961, soared up to over Rs. 5,400 crores by November 1972, the credit-deposit ratio on these respective dates being 46 per cent, 64 per cent and 66 per cent. The increase of this order is undoubtedly commendable, but what lends greater weight and social significance is the striking transformation that has taken place in the general pattern as well as in the sectoral distribution of bank credit. This tempo of change has become even more pronounced in recent years. Before Independence, the main lending activity of the banks consisted, by and large, of loans for storage and movement of agricultural produce and merchandise. In the field of industrial credit, they provided only working capital finance in the beginning, but later on forged ahead with medium-term loans against fixed assets for the modernisation and expansion of large industrial units. This was in itself a bold break-away from the time honoured tradition, but the real transformation in the pattern of bank

credit was brought about in the fields of advances to small scale industries, agricultural activities, road transport operators, small businesses and retail traders, self-employed professionals and education. Lendings to the above-mentioned priority sectors were just 14.9 per cent of the total credit in June 1969, increased a year later to 20.7 per cent and reached 21.6 per cent in June 1971. At the end of December 1971, the percentage of loans to the priority sectors of the total bank credit was almost stagnant at 21.8 per cent. This stagnation in assistance of late is evident in all the sectors of the priority group and if the latest figures are any indication, there has not been much improvement during 1972.

One disconcerting feature of bank finance in our country is that although agriculture accounts for about half of the national income and supports three-fourths of the population, it receives only 5 per cent of the total bank credit. Even in advanced capitalist countries, where agriculture contributes only 20 per cent or so of the national income, bank advances to this sector average around 8 to 15 per cent. Similarly, small scale industries, which contribute about 40 per cent of the total industrial production in the country (and in terms of employment generation even more), get only 11 per cent of the bank finance. This situation needs to be corrected as early as possible. In a similar manner, advances to small businesses, retail traders, self-employed professionals and other neglected weaker sections of the community such as petty traders, and others engaged in serving the community, are equally important to which greater attention will have to be paid.

Objectives of Bank Nationalisation

The objectives of bank nationalisation were clearly spelt out in a speech of the Prime Minister, Mrs. Indira Gandhi, on bank nationalisation. The objectives were: (i) removing control by a few, (ii) providing adequate credit for agriculture, small industry and exports, (iii) profes-

sionalising bank management, (iv) encouraging a new class of entrepreneurs and (v) providing adequate training as well as reasonable terms of service for banks' staff. It thus meant the shifting of emphasis in granting bank loans from credit worthiness of person to credit worthiness of purpose. The nationalised banks' revised policy is two-pronged: together with advances to the priority and neglected sectors of the economy, the banks have also to keep in mind removal of regional disparities through their credit policies.

It is in this context that we should bear in mind the various criticisms that have been made against banks in several quarters. There have been complaints that in the matter of assistance to the neglected sectors of the economy, the banks have made limited progress. The share of advances to these sectors as a percentage of total advances of commercial banks dropped from 22.8 per cent in 1970 to 21.8 per cent at the end of 1971. The fall in the share of priority and neglected sector advances is disturbing in that this has happened at a time when banks are being goaded on to increase their lending to these sectors. One reason for this poor performance seems to be that the enthusiasm of officers at the grass root level has not been uniform and of the desired intensity. According to one source, there have been complaints that banks are unable to come up to the expectations of the people particularly in rural, urban and semi-urban centres, and that banks have failed to create an image of easy accessibility, quick disposal and sympathetic approach. In these areas, banks have to serve the poorer and needy sections of the society and more so the banker at these centres will have to be in close and constant touch with the various economic activities of the people of the locality in order to be able to move in line with their real expectations. This is very important because at smaller places, the banker is judged primarily by the role he plays in extending finance to the various priority and neglected sectors of the local economy and not by the amount of

deposits he mobilises. This is a factor which will have to be constantly borne in mind and unless this is done, one of the objectives of nationalisation of banks, namely, to reduce the regional imbalances in the economic development, will not be achieved.

New Task of the Banker

As the Union Finance Minister recently said while inaugurating the State Bank Staff College at Hyderabad, the task allotted to the banks after nationalisation was a very important one and this task could not be successfully completed unless there was a qualitative change in the attitude of the personnel manning the banks. The accent would have to be on the small man, the small farmer, the small manufacturer and the small trader. No more could banks be cold-blooded tradition-bound storehouses of ledgers but should begin to function as living instruments of socio-economic change. The personnel of the bank are the king-pin of the banking mechanism and it is only through their creative and innovative abilities that the national objectives can be fulfilled. Banking today is passing through a dynamic period of growth and change and it is essential that the banker has to display resilience to meet new challenges of the changed times—faster mobilisation of resources and reorienting bank lendings, which will result in fulfilling the socio-economic objectives of the country such as increased lendings to priority sectors and those sectors of the industry which produce goods of basic consumption, provide employment opportunities to the people in the urban and rural areas and to the educated and technically qualified unemployed. The banker will also have to give considerable attention to keep himself abreast of the thinking of the people and provide them with such new types of service and facilities as are necessary in the changed context. In short, he has to assume the role of a friend, philosopher, and guide, as well as a financier.

(Shri Charles Abraham is the Manager, Planning Department, at the Bank's Madras Local Head Office.)

Understanding Our New Organisational Roles—II

Tushar K. Das

Role Conflict

We have seen how different members of a role set may hold different role expectations from the focal person. When these different role expectations create incompatible pressures on the focal person it becomes difficult, even impossible, for the latter to respond to all these pressures because one kind of pressure may be diametrically opposite to another. Each of these role pressures, moreover, gives rise to internal role forces. Obviously, the focal person, when subjected to such opposing role pressures, generates opposing role forces within himself and becomes a victim of psychological conflict. Role conflicts may therefore arise both because of differing role expectations in the external environment as well as due to the internal forces (psychological conflicts).

When the conflict arises out of differing external role pressures, it is known as *sent role conflict*. Obviously, the internal conflict will be greater if both these opposing psychological forces are strong; the degree of conflict will be less if one of these forces is weak.

There are principally three kinds of sent role conflicts. The first is known as *intra-sender conflict* in which the same member of a role set generates mutually incompatible pressures. For instance, when the head of a department instructs one of his junior officers to ensure that a lengthy note is typed and placed on his table the next morning, without requiring the typist to do any overtime work, and the subordinate officer is convinced that the work would involve sitting quite late that evening for completing the typing job, we have a simple case of intra-sender conflict. The second category of sent role conflict is termed *inter-sender conflict*, which arises when two or more members of a role set send opposing pressures to the focal person.

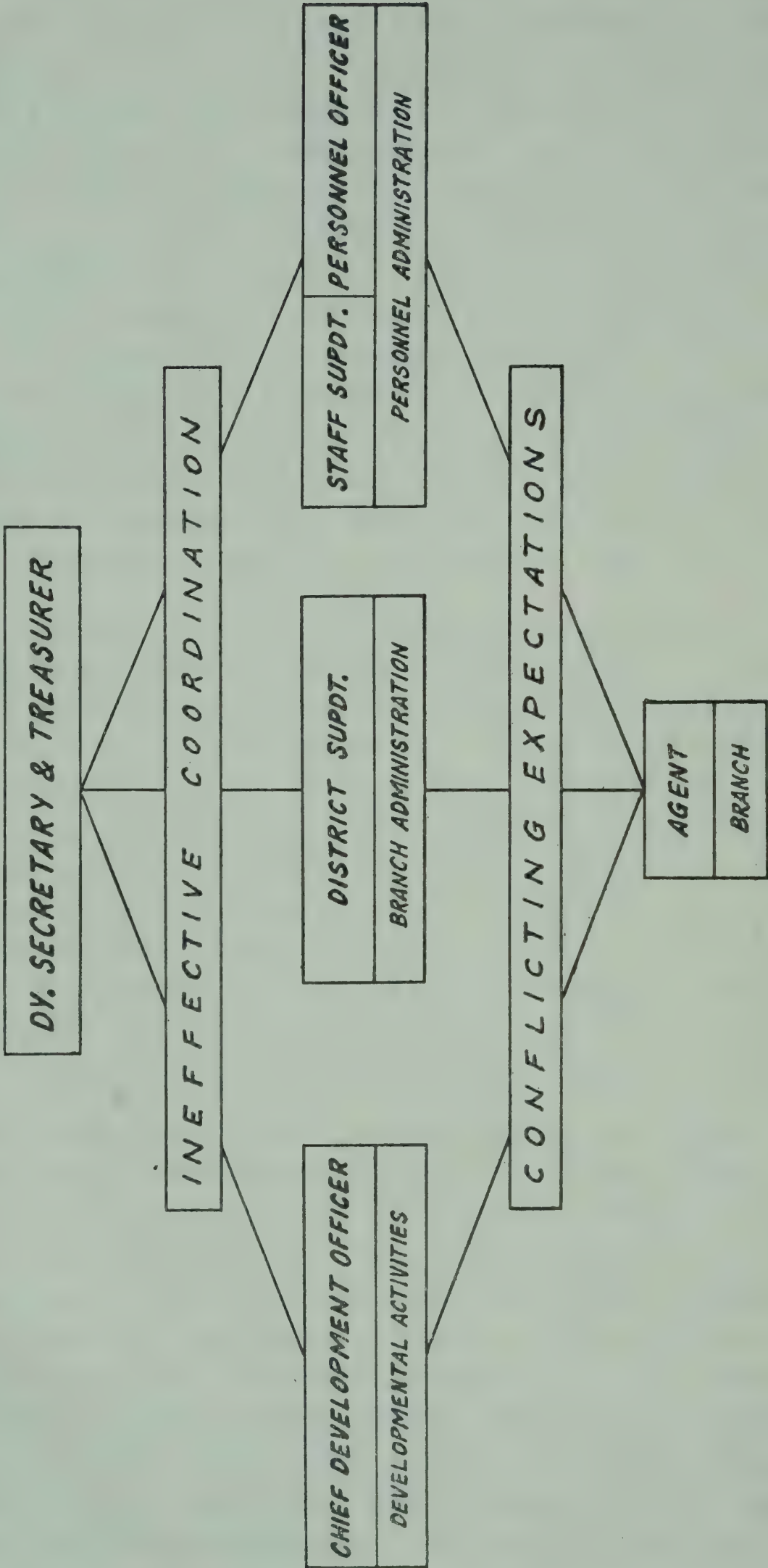
In the old organisational structure, this was happening quite frequently when, for instance, the Agents of branches were being flooded with instructions from various functionaries at the Local Head Office directing him, in effect, to employ his staff resources as well as his own attention to several areas of work at the same time (all of which were important and urgent according to headquarters). If small scale industries or agriculture was the current concern uppermost in the mind of the Chief Development Officer, then the Agent was expected to throw the maximum number of personnel into the job for undertaking survey of business potential, contacting all possible customers, helping them with the formalities for obtaining loans and generally making all efforts to reach the ambitious business targets. Unfortunately, almost similar instructions, from the District Superintendent, landed on the poor Agent asking him to devote full time and energy to mobilising deposits, which were always falling far too short of projected figures. This is not all, for the District Superintendent, by another series of communications, was taking the Agent to task for not removing all the irregularities pointed out by the last auditor or inspector and ordering him to give personal attention to rectifying these irregularities. Of course, as we all know, while these pro-

ceedings were in progress (which was perennial), the Staff Superintendent was coolly implicating the exasperated Agent for deliberately inflating his requirements of staff at his branch and deciding peremptorily that only one-fourth of the recommended increase in his staff strength was justified; this additional quota would of course be made available shortly (which is the officialese for "God knows when"). All these used to put the Agent in a dilemma as to whose orders he should carry out first with the limited staff presently at his command. (Fig. 3). Chances of such contending instructions from headquarters have been largely eliminated in our new organizational structure, so that pressures leading to inter-sender conflict, in so far as the Branch Manager is concerned, can no longer be generated in the old manner.

The third type of sent role conflict is termed *inter-role conflict*, in which the role pressures experienced by a focal person as a member of one group are conflicting with the pressures associated with membership of another role set. Take, for example, the case of an Area Superintendent: while his work requires him to be away from his home often and for days at a time, his family would also be exerting pressures to ensure that he remains in station most of the time for attending to domestic needs. This conflict of demands (or pressures) on a bank manager's time for attending to office work and family affairs has probably been experienced by most of us in varying degrees.

While the above types of sent role conflict would invariably lead to psychological conflicts within the focal person, there is another kind of conflict which is the result of the interplay of (external) sent pressures and (internal) psychological forces. This is known as *person-role conflict*, which arises when the pressures associated with the membership of a role set (typically, the demands of the working group in the office) are opposed to the personal needs, aspirations, values and beliefs. For instance, we have all seen how an officer who tries to curry favour with his superior and adopts unconventional behaviour to

FIG.3: ROLE CONFLICT IN ERSTWHILE POSITION OF AGENT



further his ambitions is ridiculed or snubbed by his colleagues. Some of us may also have witnessed the typical case of the executive who rides roughshod over his immediate superior by virtue of his personal connections, real or got-up, with the superior's boss. It is possible no doubt for this executive to carve out a career for himself while the going is good (with the blessings of the super-boss), but the tremendous person-role conflict that he must be experiencing can be easily surmised, because of the virtual rejection of his behaviour by his colleagues, senior as well as junior.

Role Overload

There are of course other forms of conflict which are more complex and usually are combinations of the four primary categories discussed above. A common example of this complex variety of conflict can be found in cases where the focal person is expected by the role senders in his role set to carry out an inordinately large volume of work. This enormous burden cannot obviously be borne by the focal person and, as a consequence, in trying to decide which task to perform in what order, and also which to carry out and which to ignore, he experiences a kind of inter-sender conflict known as *role overload*. In failing to neutralise or reject some of the pressures and cut down his total job to manageable proportions, the focal person becomes a victim of some person-role conflict also.

We shall take two examples to illustrate role overload in our Bank. In the previous organisational structure, an Agent of a medium-size or large branch was expected by his controlling authorities to perform an innumerable number of tasks and he was made personally responsible for the proper completion of all these tasks (sometimes even including those tasks left incomplete or undone by his subordinates). No doubt that there were a number of subordinate officers to assist the Agent, but they, in turn, expected a considerable amount of explicit instructions to

flow from the Agent in regard to the execution of their own tasks. On the side of the superiors, the Agent was the recipient, as mentioned earlier, of directions from several controlling officers at the Local Head Office, like the District Superintendent, Chief Development Officer, and Staff Superintendent. All these headquarters officials naturally tended to influence the Agents (in the matter of allocation of staff resources between different types of business at the branch, personal attention to certain jobs, etc.) so that their own particular area (internal accounting work, development of business in small scale industries, agriculture, foreign exchange, etc., or industrial relations, productivity of staff, etc.) received the topmost priority from the Agent. Apart from all this, the Agent had to contend with the pressures exerted by the employee unions — of the Award as well as, increasingly, the supervisory personnel. All these various kinds of pressures from members of the Agent's role set, generated by the different expectations of the members, added up to a substantially large number of tasks which he found extremely difficult to carry out satisfactorily. The result was that the Agents of the larger branches were continually plagued by a high degree of conflict arising from role overload. The major part of the problem of course has been sought to be solved by providing for a single boss for the Agent — namely, the Regional Manager, or the Dy. Secretary (Operations) — and by creating Divisions according to specified market segments within the branches under Managers who, for all practical purposes, act as Agents in respect of the work involved in the particular Division. We are, however, not concerned here with these changes (brought about by reorganisation), but rather with the point about how role overload conflict can arise in an organisation.

In our second example, we will consider the case of an official at the Local Head Office: namely, the Regional Manager as he was placed in the early months of reorganisation. Now, the members of the role set of a particular

Regional Manager expected him to perform certain types of jobs. Normally, the total task would not be beyond the Regional Manager's ability. But in case the range of jobs expected to be attended to by the Regional Manager is so wide that he cannot possibly do justice to all the tasks, he has perforce to try and arrange them in order of priority and then shift some of the relatively unimportant or irrelevant tasks to other roles. He would thus face a conflict situation, firstly, in fixing priorities because of the various strengths of the sent pressures; and secondly, even when he has succeeded in grouping tasks into what he ought to do himself (and is possible for him to do) and what should be done by others, he might be unable to have his way, that is, withstand the external pressures for doing everything himself. All this gives rise to conflict within himself, for he cannot possibly perform the totality of tasks expected of him by the members of his role set.

In the initial stages of reorganisation in Ahmedabad and Bombay Circles, there was indeed a feeling that the Regional Managers are probably facing role overload. As the direct superior of 75 Branch Managers, the Regional Manager was expected to address all communications, except those which were of a very routine nature or of minor importance, to the branches in order to adhere to the concept of unified command. Also, it was reasoned that if any other official in the Regional Manager's Department wrote to the branches or sanctioned advances, etc., then there was a likelihood of Branch Managers perceiving such actions as those of a virtual second tier of command below the Regional Manager. This interpretation by the Branch Managers, it was considered, would do serious damage to one of the most important planks of the new organisational structure, namely, that there were no other intermediate functionary between a Branch Manager and his Regional Manager (in keeping with the concept of unified command). In order, therefore, not to vitiate the undoubted virtue of this "one man, one boss" concept, no administrative or financial authority was,

initially, delegated to any official in the Regional Manager's Department. The result was that the Regional Manager's desk became quite heavy and there was a suspicion that much of the delay that occurred in the disposal of work in the Department was due to this overloading. It appeared, moreover, that the Regional Manager was not left with sufficient time, if any at all, to attend to some of the other functions attached to his position, like improving the work organisation in his department, guiding his subordinate officers (including Area Superintendents), discussing important matters with the Development Managers, Planning Manager, Personnel Manager, other Regional Managers, etc., visiting some branches, and so on. In effect, the Regional Manager in those days hardly had any time to carry out all the task allocated to him.

This situation was diagnosed as a problem of work overload — a conclusion with which we may not necessarily agree⁶ — and certain changes were made in order to make the tasks of the Regional Manager somewhat more realistic in terms of his capacity to perform them efficiently. In fact, the number of branches under a Regional Manager was subsequently reduced to around an optimum of 60 and one of the subordinate officials in his Department (designated Administrative Officer) was entrusted with a certain amount of financial authority for sanctioning advance proposals. In this manner some of the role overload conflict, which was experienced by the Regional Manager earlier, was sought to be reduced. The essential point to note here is that as a consequence of too many expectations from the members of a role set, the focal person may experience role overload conflict, which is usually a combination (hence the complexity) of inter-sender and person-role conflicts.

Influencing Role Behaviour

It would be evident from the above description of the major types of role conflict that one important characteristic is common to all of them: in all cases, role pressures

are exerted by the members of a role set to change the role behaviour of the focal person. We may note here incidentally that of all the members in a role set the expectations of the focal person's superiors are the most potent, while the expectations of the officials in other departments and also of peers are less influential in the delineation of the character of a role. These pressures are of course generated in the usual course in a work situation, for an official will be inclined, in varying degrees, to try and shape the behaviour of the other members of his role set to suit his own convenience or to make the others fall in line with his own ideas about how they should act in their respective positions. According as these pressures take different forms and strengths, particular types of conflict, as discussed earlier, are generated. Also, the more strongly a pressure is exerted, that is, the more actively the behaviour is sought to be altered, the more acute is the conflict.

In our banking situation, an example which readily comes to our mind is the conflict experienced by the Regional Manager in regard to the subject of delegation of authority to his Area Superintendents and departmental Superintendents, as it happened in Ahmedabad and Bombay Circles during the first year of working under the reorganised structure. Initially, when the reorganised structure was introduced in July 1971, both these categories of officials felt quite strongly that they should be vested with sufficient authority to facilitate disposal of work, for according to some of them job satisfaction could be derived only when they could do "substantive work" and not mere file-pushing or talking to Branch Managers. The demand was, in keeping with their idea of what constituted "substantive work", for delegation of authority to sanction loans and expenses up to certain levels, and authority to report, confidentially and otherwise, on the performance of Branch Managers. Some amount of financial authority was of course delegated to the Area Superintendents that first year (which was subsequently withdrawn), to be ex-

exercised when they were at branches, but these were only meant to expedite disposal of urgent matters (which were rare) and hence scarcely brought into play. This authority was however deemed inadequate by the Area Superintendents and they seemed to desire some administrative authority over the Branch Managers in their Area and, also, the provision that they may exercise their authority, as they very much liked to do, while stationed at headquarters (that is, sanction loans and expenses, etc. during the periods they are working in the Regional Manager's Department between their regular tours of branches).

In the case of the Superintendents in the Regional Manager's Department, though, no authority was vested in them in the first stage of reorganisation (later of course one of them in each Region was delegated some financial authority). So these officials were naturally not satisfied with their purely "processing" and "secretarial" nature of work, which was chiefly meant to assist the Regional Manager, the sole boss of the Branch Managers, in taking decisions. The conveying of routine decisions to the branches was of course being done by these Superintendents. But this essentially secretarial work was clearly not providing any job satisfaction to them and the feeling was almost universal among these Superintendents, particularly those who were senior and had held earlier charge of medium-size branches, that they were given a raw deal in the revised organisational structure. The fact that some of the Area Superintendents were quite openly envious of the relatively sheltered position at headquarters, without any touring duties, enjoyed by these departmental Superintendents did not alter the conviction of the latter about the "intangible" nature of their contribution in the Regional Manager's Department. The net result was that both these categories of officials exerted pressures, directly and indirectly, on the Regional Manager (as well as some other officials) to have the requisite authority delegated to them.

An idea of the degree of conflict which was experienced by the Regional Manager can be had when we recall that, in the face of this intense canvassing (role pressures) by his subordinates, he could not delegate any authority vested in the Area Superintendents. We are of course aware of the reason for this inability of the Regional Manager to delegate: he was precluded by the organisation (the Bank) from doing so. The role envisaged for the departmental Superintendents did not countenance, in line with the thinking in those days, the grant of any authority to these officials lest this create another hierarchical level between the Branch Managers and their Regional Manager. Similarly, any extension of authority beyond the nominal authority granted to the Area Superintendents was considered inimical to the spirit and content of the role contemplated for them. Subsequently, of course, as we now know, the thinking on these matters had undergone some change, but that is not our present concern. What we need to note here is that the Regional Manager in the early days under the reorganised design did experience acute conflict on account of his subordinates exerting strong pressures for increased delegation of authority and the organisational scheme of things precluding him from complying with these demands, even though the Regional Manager would perhaps have preferred to delegate in most cases (given a free hand). By definition, the strength of the conflict experienced by the Regional Manager was equal to the strength of the pressures exerted by his subordinate officials for more delegation. And since the pressures for extended delegation (which were obviously exerted to change the behaviour of the Regional Manager on the subject of delegation) were considerably strong, we may say that the conflict experienced by the Regional Manager was also quite acute. We may conclude our observations on role conflict by noting that, according to research evidence, conflict is particularly discernible in the middle management levels and less frequent at the topmost and lowest level of management.⁷

Role Ambiguity

An important concept we have to consider along with role conflict is known as *role ambiguity*, which generally arises when a job is not clearly laid down as, for instance, in the case of Area Superintendents. There is considerable scope for role ambiguity when management policies are not clearly formulated or instructions are not clear. Also, when responsibility boundaries are not clearly defined — who is responsible for what — there is every possibility of role ambiguity. It may be that a person thinks that a particular task is the responsibility of another, and therefore does nothing about it. Or, what is equally problematic, two or more persons may believe independently that a particular task is his own individual responsibility, so that more than one person lays claim to the same job. Usually, however, it is the former case which creates difficulties. To take a small example, we see this happening when letters received from the public sometimes make the rounds with a series of stamps reading “Not for (A) (B) (Y) (Z) Department”. (There is a variation of this message which says “Not for us” with no indication as to who the “us” means, unless you are able to decipher the small initial appearing somewhere near the stamped words).

Now, every employee in an organisation requires adequate information pertaining to his position so that he can play his role effectively. The kinds of information required are concerned with both his professional work and his personal well-being and include his duties and responsibilities, authority vested in him, methods of working he should follow, the resources at his disposal, the kind of behaviour he should adopt, the rewards and punishments provided for in the organisation and the kinds of behaviour which attract them, the opportunities available for advancement, the likely threats to security of service, and so on. Without all this information, an employee would feel ill at ease and would find it difficult to adjust himself psychologically for peak performance. Certain kinds of information, of course, may not be possible to be obtained

because of their inherent limitations, like future governmental policies regarding banking, or the future places of posting for an official of the Bank. Other kinds of information may be deliberately withheld from a particular person as a matter of administrative policy, like the contents of the annual confidential report submitted by his superior on him. However, as much related information as possible should be made available to each employee, if role ambiguity has to be minimised and his productivity and morale improved. The reason for this is quite obvious: the more an employee is unsure about what he is expected to do and how, the more will be the tension and anxiety experienced by the person.

Depending on the nature of a particular person, the degree of anxiety will differ for any given state of ambiguity. Some persons find it extremely difficult to function without clear-cut directions and guidance. Others are not overly perturbed by a large amount of ambiguity in their roles. Whatever the reaction, however, it has been found that role ambiguity inevitably results in varying degrees of strain. Some of the important areas in which ambiguity may be experienced by a person working in an organisation are :

- (a) lack of clarity about range of responsibilities;
- (b) ignorance about how to go about a job;
- (c) vague and inconsistent expectations of role senders;
- (d) inability to distinguish between legitimate role senders and "extraneous" persons;
- (e) lack of clarity about long-range organisational consequences of one's actions;
- (f) uncertainty about short-range effects of one's behaviour on the achievement of group goals or on the well-being of one's associates;

- (g) doubts about whether others are satisfied with one's performance;
- (h) confusion and uncertainty about information supplied because the messages communicated are unclear, fragmentary, garbled, or contradictory.

The most cogent illustration of the tension and anxiety created by role ambiguity is the case of the newly-introduced position of the Area Superintendent and, to a slightly lesser extent, the Dy. Secretary (Planning & Staff) and the Development Managers. These positions were non-existent in the previous organisational structure with which the present role incumbents learnt their trade. Now, when we have switched over to the new design, the same persons who had taught themselves to perform well in the old pattern of management were abruptly expected to carry out purely specialist jobs. There was understandably some feeling of being at a loss and a desire to get back to the old situation. Also, a kind of "grief reaction" was evident for being deprived of the prized possessions like past experience and competence, old working norms, known performance evaluation criteria, etc.

But much more than the problems of transition from one of the old roles to a new one, what bothered these officials, particularly the Area Superintendents, was a lack of clarity about their new roles. Many of the ambiguities listed above were present in their new work situation and their anxiety was acute. In the case of the Area Superintendents, this mental stress was further compounded by the absence of any previous experience in jobs calling for superior skills in guidance and counselling, and operating with junior branch managers on the basis of equality, far removed from the usual pattern of working with legitimised authority. There was an almost unanimous demand from the Area Superintendents for more certainty about the nature of their role, about their specific duties and responsibilities, and about the criteria on which their performance would be appraised.

Clearly, the extent of role ambiguity and the concomitant tension and anxiety, would be determined principally by the absence of concrete information about the position. The presence of ambiguity in a role, objectively speaking, does not however automatically mean that the role occupant will experience equal ambiguity; rather, his own personality will modify the objective ambiguity and try to cope with the ambiguous situation. The need for the reduction of role ambiguity becomes particularly crucial for persons who cannot perform well under such ambiguous conditions because of the attendant inner tension and anxiety.

Job Descriptions

One of the ways in which we can aid a manager to gain a clear idea of his part in the organisation is to provide him with a detailed description of his job, which would include his authority, duties, and responsibilities. But, while this detailing of the functions of a manager in task-oriented terms may be of some advantage at the lower operating levels, it becomes necessary at the higher management levels (Central Office and Local Head Office) to describe the managerial functions in terms which are more oriented towards the objectives of the Bank. Besides, although a position description delineates the various details of an individual manager's task, it does not show how he interacts with the other functionaries at the Local Head Office. This often engenders a notion that an official acts in isolation, completely independent of the other positions in the office. The result is that there is an unintended emphasis on individual action as distinct from management through joint action or group participation. The working relationships of a manager with others do not, as a consequence of this individual action, develop adequately and the required integration of the work of all managers for achieving the total task of the Local Head Office does not come about.

A job description, moreover, reflects mostly the static

aspects of the position by confining itself to an inventory of tasks for which the incumbent manager has primary responsibility. It does not sufficiently recognise that the demands on the manager in operational terms are likely to change from time to time in accordance with changes in the business situation. Although undoubtedly individual tasks form an important part of a manager's job and have to be performed, a job description, by concentrating only on the tasks, fails to take cognisance of the essentially dynamic character of a manager's position.

Another fundamental factor ignored in job descriptions is that the performance of a manager is dependent to a large extent upon the nature and quality of relationships he is able to establish with other managers. This is so because of the fact that managerial jobs are interdependent and interconnected. A manager would be very unlikely to do his job well unless he has good working relationships with at least those managers who are in some way, directly or indirectly, concerned with the performance of his job. Every job can thus be seen as part of a network or matrix of related jobs. Particularly in the new organisational structure, it is envisaged that there will have to be a considerable amount of interaction between the various positions at the Local Head Office. It is easy to visualise the significant part which the large number of interrelationships will have in determining the standard of administrative efficiency. It follows that, if we are to be realistic, any description of a manager's job has to take into account the mutual obligations and expectations of other jobs.

Some people feel that if job descriptions are written down by the focal person himself then he is likely to be more committed to discharging his responsibilities. Increased motivation may well be one of the benefits of this mode of preparing job descriptions, but we should note that the focal person cannot really set down the entire range of prescriptions according to his choice, for the simple reason that many parts of his job are "predetermined" by others. Indeed, a large portion of his job will be substan-

tially conditioned by the expectations of the members of his role set arising out of formal organisational prescriptions (rules, procedures, etc.). In effect, therefore, the area of freedom of the focal person to shape the job description according to his own preferences is severely limited; he cannot in practice ignore the role expectations "surrounding" him without creating a conflict situation immediately in relation to the other managerial positions. Hence, a self-produced job description, while seemingly more suitable for commitment and motivation, may not be expedient in actual practice.

In any event, the scope for writing down a job description in terms of specific tasks rapidly decreases as one climbs up the organisational ladder, for the self-prescribed content (which is highly dynamic) of one's role becomes progressively more dominant. But the real danger in such self-prepared job descriptions is that the individual concerned may be acting according to what he perceives as his role within a particular reference group, while the operating requirements of the organisation may be quite different. Without proper regard to the essential interconnectedness of managerial roles, job descriptions would not be conducive to the maximisation of efficiency.

Discretionary Content

One further aspect of a managerial job which traditional job descriptions fail to mention has to do with the exercise of discretion. Specifically, it does not recognise or define the limits of discretion which a manager is expected to adhere (the word 'discretion' as used here does not have the connotation of financial or other legitimate authority). By ignoring the discretionary content in any managerial position, a job description gives at best only a partial view of a manager's total role. This discretionary element, which is quite distinct from the prescribed task with which we are more conversant, is really the factor which distinguishes the job of a manager from any other routine or repetitive work. The exercise of discretion is

basically the exercise of judgment, which is constituted by such personal attributes as knowledge, experience, analytical ability, a certain amount of intuition, etc. It is important therefore that the boundaries of discretion are outlined so that a manager can (a) confidently exercise the discretion vested in his position and does not unnecessarily refrain from applying his best judgment in a mature manner and taking the initiative because of any ambiguities in his understanding of the range of his discretion approved by the organisation and (b) desist from any transgression of the limits of discretion permitted by the organisation.

Role Analysis Technique

In order to take care of the deficiencies of job descriptions or position descriptions which we have noted above, a new technique has been evolved which is known as the role analysis technique (RAT in short), developed jointly by Dr. John M. Thomas of the Massachusetts Institute of Technology and Professor Ishwar Dayal of the Indian Institute of Management, Ahmedabad⁸. The technique takes care of the dynamic aspect of a job and provides for the fact that managerial jobs are interconnected, i.e. the performance of a manager is dependent not only on how he goes about doing his specified tasks but also on the nature and quality of relationships he has or is able to establish with the other managers in the office with whom he has to work in order to achieve the objective of his role.

The technique therefore proceeds on the basis that each managerial job has to be seen as part of a network or matrix of several related jobs. It thus incorporates in its analysis a description of the mutual expectations of roles or jobs of various managers in a way which is acceptable by all of them.

The drafts of role analysis of certain important positions at a Local Head Office were prepared tentatively on the basis of role analysis sessions held at Ahmedabad

and Bombay Local Head Offices during the period prior to the reorganisation of the Circles concerned. The sessions were conducted by Prof. Ishwar Dayal and the role analysis drafts were prepared on the basis of the discussion proceedings at these sessions. These drafts are, at the time of this writing, being made more comprehensive and will in due course be available to our officers.

We set down here, briefly, the methodology followed in using this technique, as described by Prof. Dayal in his article on the subject. There are four parts in the analysis of the roles :

- (a) *The purpose of the position* which gives the rationale behind the creation of the position and what it is expected to achieve;
- (b) *the prescribed element* which describes the tasks which are prescribed for the role;
- (c) *the discretionary element* which sets out the nature and limits of discretion (this of course is not exhaustive); and
- (d) *the mutual role expectations* which detail the expectations of the other roles from the focal role.

The following are the different steps involved in the technique :

(a) the focal role person initiates the discussion of his role by trying to analyse the purpose of his position i.e. how his role fits into the total range of activities in the organisation;

(b) he lists his various activities — here the other role incumbents (including his immediate superior) question him as to how he has come to define in the way he has the tasks he thinks he has to carry out; if there is any confusion or ambiguities about the tasks in the definition prepared by the focal role person then these are clarified;

(c) the focal role person lists his expectations from

the other roles — of course, the same sort of thing is done for each role and the mutual expectations are settled after discussions so that there is no ambiguity as to who expects what from which role; and

(d) the focal role person writes up his role consisting of all the above aspects of his work.

In this way the discussions help each manager to have a clear idea of his role, an appreciation that all the roles are interdependent, that everybody has got some obligations and expectations which must be mutually agreed upon, that otherwise there will be conflict and confusion. Also, there will be a comprehensive understanding as to who is to play what role. In this manner, the boundaries of each role will be evident; the role space of each person will be clearly understood by all concerned. This gives a more realistic appreciation, when compared to the traditional job description, of the role as a dynamic function, in the sense that each manager has to play a certain role in a dynamic fashion. It is dynamic because as and when the objectives of an organisation change (and these can change in response to environmental and policy changes), as and when the tasks of an organisation change (this we know has been happening), the methods of performing the tasks will also change and, along with that, the mutual expectations. Further, the nature of the interdependences between the roles — how each one goes about helping others perform the total task of the organisation — will also change.

It has been stated that one of the by-products of the role analysis technique is that ambiguities about policy issues are clarified. The reason is that in case there is any confusion as to what really is the policy of the organisation, then every manager will see the organisational task as somewhat different from what another manager would and also have expectations from other roles which are inherently conflicting. Hence, in the discussions, while analysing the various roles, these ambiguities about policy issues come to light and are clarified. Also, some of the

interpersonal problems are worked out during these sessions. Normally, these interpersonal problems would have remained in the background and continued to hinder managerial efficiency by affecting relationships and, hence, the job itself.

Thus, the role analysis sessions help considerably in bringing about an understanding of the organisational policies as well as clearing any misunderstanding which may exist among the various persons. The discussions during these sessions also help to clarify each role for all the other persons who are present and who play other roles. Ordinarily, had these sessions not been held, some of the ideas about other roles would remain relatively unclear if one were to go merely by job descriptions or any other type of write-up. By participating in these sessions, everybody comes to have a better idea of how other persons are expected to play their roles besides gaining a clear idea of how he himself is, in turn, expected by others to play his role. A clear conception of each person's role is thus formed, not only in the context of the objectives and task of the organisation, but also in the light of what other managerial positions expect him to do. This results in an understanding and co-operative climate for the joint performance of the total organisation task by the persons concerned.

Conclusion

We have discussed how the new roles have their genesis principally in the separation of the operating and specialist functions in the Bank's revised organisational structure. These roles have naturally to be shaped in such a manner that administrative efficiency is maximised with due regard to the concepts underlying the new design (unity of command, boundary control, separation of operating and specialist functions, market segmentation, etc.) and the operational demands of the institution. Just as the corporate goals, management policies, and business operations of the Bank are subject to change in response to

changes in the environment and the business mix, the character of the various organisational roles is also similarly liable to corresponding modifications. This need for the new roles to have an in-built capacity for change precludes us from relying entirely upon the traditional job descriptions. By its very nature, a job description tends to place a role incumbent into a straitjacket of specific tasks and responsibilities, and ignores the crucial relationships between different connected roles. The role analysis technique recognises the essentially dynamic character and interconnectedness of the new roles, and seeks to eliminate some of the basic deficiencies of job descriptions.

As the delineation of the new roles would ultimately depend on the people who occupy the different managerial positions, it is imperative that our officers have a working knowledge of some of the fundamental role-related concepts. By briefly explaining these concepts with constant reference to the set-up in our Bank, this paper has aspired to help our officers in gaining an understanding of the practical ramifications of organisational role performance. Without this appreciation of the nature of the new managerial roles, it would be difficult to adjust to them and perform efficiently. Also, this knowledge would be indispensable for the proper reshaping of the roles later on when organisational requirements undergo changes, as they inevitably will.

It would seem, therefore, that particular attention needs to be paid to the work of locating any additional units or functions contemplated at the most appropriate places in the organisational structure, for otherwise there is every likelihood of some confusion and ambiguity being created in existing roles. As the requisite expertise in this matter may not be available at the very outset at all our offices, it would seem necessary to have a centralised consulting department to examine any proposal involving modifications of the organisational structure or the nature of managerial roles. Such an arrangement would, if nothing else, help in maintaining some uniformity throughout the

institution. But more importantly, this consulting department would be a fairly effective check against random modifications of the new organisational structure by various authorities, leading to the development of internal contradictions before even perhaps the design envisaged is given a fair chance to be implemented fully. In changing over to any new system such monitoring of the initial efforts is essential for stabilising the system and operating it on the desired lines.

We shall conclude with a note of caution that unless adequate care is bestowed in the initial stages (which means the coming two years or so) on the proper shaping of the new roles, there is every possibility of our being saddled with unwanted distortions. It is not enough, for this purpose, to explain the nature of their roles to the officers concerned; they have to be actively counselled by their superiors, so that due care is taken in performing the roles in the spirit intended. We cannot remain content with the fact of acceptance of the new roles, which is implied by the change-over to the new design; our aim should be the full understanding of the rationale and nature of the new roles by all our officers. A few distorted roles could seriously impair the overall efficiency of the organisation, besides obstructing the stabilisation of the new design.

(Concluded)

(Shri Tushar K. Das is Staff Officer in the Reorganisation Department at the Bank's Central Office.)

-
6. Workload can be looked upon as a relative concept, in the sense that a specific task may be less burdensome to an officer with wide experience and training than to one who is comparatively

inexperienced and untrained. Particularly when it is concerned with the position of the Regional Manager, a host of factors are involved in determining the actual workload, given the various concomitant changes in related areas. First, it being a new position, no incumbent had any previous experience or training in doing the job in the manner envisaged. As the method or style of working has a definitive bearing on the efficiency of a manager, and every job demands a different working style for maximum efficiency (subject to personal attributes of the manager), it was imperative that the Regional Managers reoriented and readjusted their method of working in their new job. In this respect, the concerned officers were clearly not fully prepared at the very outset, and this is entirely to be expected. Also, there is the related point about a suitable workflow in the Regional Manager's Department, which was material for achieving administrative efficiency. Things naturally tended to be done in the same manner as in the erstwhile departments concerned with developmental activities, staff, and branch administration, and the practices followed in these departments were carried over to the new Department by the respective personnel. Some coherence in these practices and designing a new workflow pattern from a systems angle were urgently called for.

Secondly, in terms of a redistribution of delegated authority (financial and administrative) among Regional Managers and Branch Managers, the position was not ideal, for the Branch Managers were not entrusted with the extent of increased authority which would have enabled them to dispose of 80 to 85 per cent of their work, as was originally planned, so that much more perhaps than the anticipated 15 to 20 per cent of the work at the Branch Manager's level was coming up to the Regional Managers. Moreover, the capabilities of the Branch Managers generally to exercise effectively whatever enhanced authority that was delegated to them were probably not developed; the Regional Manager, as a consequence, had to exert himself more in terms of guidance and control. Thirdly, the Area Superintendents who were supposed to help the Regional Manager in improving the decision making capabilities of Branch Managers were themselves not quite prepared to do so, being new to their jobs.

In sum, the Regional Managers were neither themselves fully equipped to do justice to their jobs—which was no doubt unavoidable under the circumstances — nor were they provided with the necessary external resources (trained Branch Managers, Area Superintendents, etc.) to perform efficiently. This situation was of course fully anticipated, for it was common sense that some time had

to elapse before the design (in this case, the workload at the Regional Manager's level) could be evaluated. In reality, however, a conclusion was reached that the Regional Managers have an acute problem of role overload even before the system could settle down and the various factors mentioned above could be brought effectively into play. The solutions decided upon—namely, a smaller number of branches in each Region and delegation of some authority to sanction advances to an official in the Regional Manager's Department—however justified they may be, appeared to ignore the validity of the three factors mentioned above. It is possible, therefore, to take a view that the diagnosis (that of role overload) stemmed from considerations of expediency, rather than from a rational analysis of the potency of the impugned three factors in determining the workload at the Regional Manager's level. And since these factors could not be taken care of within the time available, the inference that role overload was the malady was perhaps premature. The remedy did not lie in redefining the role itself, as was done, but in exploring ways and means of trying out the role as originally designed for some months at least after duly taking care that the three conditions discussed above were fulfilled. Only when we are convinced that the conditions are not easily attainable, could there be an occasion for seeking alternative solutions. In our present case, the author believes, role overload may not necessarily be inferred, for we have not satisfied the premises on which the role was based.

The reason why we are making these observations is that it is seldom useful in the long run to allow expediency to take precedence over objective analysis and thorough preparation. In the matter of designing roles, our present concern, this principle has important consequences. The moment we reduce the number of branches per Region, for instance, we are in effect increasing the span of control of the Dy. Secretary (Operations) from the contemplated ten to twelve officials (six Regional Managers for 450 branches plus some Branch Managers reporting directly), which is wide enough, to around an almost impractical thirteen or fourteen. This kind of modification of the nature and content of the roles may not augur well for attaining the design we have, for good reason, decided to implement. The conditions which we have to fulfil (like extended delegation, revamped administrative practices, etc.) to make the new organisational structure effective (cost-wise and efficiency-wise) have first to be attended to before we can say that the design envisaged needs to be modified. A second, and even a third, look has to be given to every question involving modification of the master plan, and the trade-off point carefully determined between success in meeting an immediate crisis or difficulty and the final, long-

term benefits which we chose to work for but which we may be jeopardising through the expedient measures taken today.

7. Kahn et al, op. cit, p. 382.
8. Ishwar Dayal, " Role Analysis Technique in Job Descriptions ", California Management Review, Summer 1969, pp. 47-50. The article is reprinted in Ishwar Dayal, New Concepts in Management, Lalvani Publishing House, Bombay, 1970, pp. 39-47.

Current Topics

Power Situation

Electric power is one of the basic infrastructures necessary for the development of a country. Through its use in industry, agriculture, transportation and in the commercial and domestic sectors, electricity penetrates, either directly or indirectly, in every facet of the nation's life. Per capita consumption of electricity is considered to be one of the most important indices of the standard of living. During 1970-71, per capita consumption of electricity in the country was only about 90 kwh., which was very low when compared with the levels of consumption in developed countries. In 1969, for example, the level of consumption was 7,013 kwh. in the U.S.A., 3,700 kwh. in the U.K., 2,628 kwh. in the U.S.S.R., 2,408 kwh. in France and 1,006 kwh. in Yugoslavia. It has been estimated that per capita consumption of at least 500 kwh. should be aimed at for an acceptable minimum standard of economic well-being.

Development under the Plans

Since the country embarked on an era of planned development, there has been a steady growth in the installed generating capacity. From 2.3 million kw. in 1950-51, the generation capacity rose significantly to 14.2 million kw. on the eve of the Fourth Plan, which envisages an increase in generation capacity to 23 million kw.

TABLE NO. 1

Power Generation: Installed Capacity

(In million Kw.)

Year	Installed capacity	Addition during the period / year	Average annual addition
1950-51	2.3	—	—
1955-56	3.4	1.1	0.2
1960-61	5.6	2.2	0.4
1965-66	10.1	4.5	0.9
1966-67	11.4	1.3	1.3
1967-68	13.1	1.7	1.7
1968-69	14.2	1.1	1.1
1969-70	15.5	1.3	1.3
1970-71	16.4	0.9	0.9
1971-72	17.2	0.8	0.8

Investment on Power Development Programmes

Total investment on power development up to the end of the Third Plan was Rs. 2,350 crores. Taking into account the average annual expenditure of Rs. 418 crores during the three year period from 1966-67 to 1968-69, total investment on power development was Rs. 3,604 crores at the beginning of the Fourth Plan. An allocation of Rs. 2,448 crores has been made in the Fourth Plan for power development. Including the sum of Rs. 1,512 crores invested in the first three years of the Fourth Plan, the

aggregate investment on power at the end of the year 1971-72 was of the order of Rs. 5,116 crores. Despite such a huge outlay, the power situation has deteriorated in the past few years and become acute with the failure of monsoon in 1972.

Power Generation: Deceleration in the Growth Rate

In recent years, there has been a steady decline in the creation of new generating capacity. As against average annual addition of 1.4 million kw. during the Plan holiday (between 1966-67 and 1968-69), only 0.8 million kw. were added in 1971-72. The Fourth Plan Mid-Term Appraisal observed that as against the targetted capacity of 23 million kw., only 21.2 million kw. would be achieved in 1973-74. A review of the latest position indicates that the installed capacity is not likely to exceed 20 million kw. by 1973-74, thus missing the Fourth Plan target by 3 million kw. A short-fall of this magnitude is bound to affect both industrial and agricultural production inasmuch as 70 per cent of the total consumption of electricity is accounted for by the industrial sector and 10 per cent by the agricultural sector. In both these sectors, power consumption has been growing significantly in recent years.

Power Situation: Critical

Not only there has been a steady decline in the annual addition to the generating capacity over the past few years, but many mammoth thermal units like Neyveli and those of Damodar Valley Corporation have been showing declines in kilowatt output. In contrast to the deteriorating supply position, the demand for electric power has been mounting as a result of the increased number of industrial units especially power intensive units, rural electrification and agro-pumpset energising programmes. Reviewing the power supply position in the country, the Annual Report of the Ministry of Irrigation and Power observed that during 1971-72, situation was satisfactory except in the States of Gujarat, Punjab, Haryana and Uttar Pradesh. However, the position has further deteriorated in-

asmuch as power shortage has assumed the proportions of a national crisis. Almost all the States have been experiencing acute power shortage of varying intensity. In some States, industries are not working throughout the week. Even during working days, there are both planned and unplanned cuts in supply. The reasons for the current power crisis can be traced to a variety of factors such as the vagaries of the monsoon, maloperation of thermal units, delay in the commissioning of new schemes and energy losses in transmission.

Failure of Monsoon

The virtual failure of south-west monsoon has reduced water levels in storage reservoirs of hydel dams which has impaired their power generating capacity. At Bhadra, the current level of water releases from Gobindsagar is about half the level in a normal year. On August 1, 1972, the level of Rihand reservoir was 840 feet as against the optimum level of 880 feet. In the Punjab, due to poor level of water, the Bhakra system is supplying only 54 lakh units of electricity against the actual requirements of 75 lakh units. The situation is expected to persist, if not worsen, till June 1973, when inflow of water into the Bhakra reservoir may improve following melting of Himalayan snow. However, in the case of poor snowfall or poor rainfall in 1973, the power crisis may be prolonged up to October 1973, when the Guru Nanak Thermal Plant at Bhatinda is expected to be commissioned. Consequently, 40 per cent power cut has been enforced on industries in the Punjab. A power cut of 25 per cent in Tamil Nadu came into effect from October 1, due to a steep decline in storage levels of principal reservoirs of the State coupled with the inability of neighbouring States, which are themselves facing shortages, to supply more power to Tamil Nadu. Following low levels of storage water in the Lingannamaki reservoir which feeds the Sharavathy hydel station, 25 per cent cut was effected in Mysore from October 2, 1972. The power cut ranging

from 2 to 8 per cent imposed in Maharashtra on October 1, 1972, has recently been raised to 2 to 25 per cent with effect from December 1, 1972. The hydro-power generation in the State has been affected by the lower water levels in the Koyna reservoir and in the lakes of Tata hydel plants and reservoirs. The current storage of water in the Koyna reservoir is 38 per cent of its capacity against 85 per cent last year. The storage capacity of the reservoirs of the Tata hydel plants is 1,117 million cubic metres. As against 74 per cent level last year, the current storage is only 36 per cent of the capacity. It is estimated that the power cut in Maharashtra may involve a loss of production to the tune of Rs. 50 lakhs per day.

Maloperation of Thermal Units

Normally, the thermal units are supposed to operate at 80 per cent of their capacity and keep a "spinning reserve" of 20 per cent, which should go into operation when hydel power output falls. However, the thermal plants have been unable to generate any more than they did in the last year even after using their spinning reserve. There has been a fall in the utilisation of the installed thermal power capacity either due to poor maintenance of the equipment or hold-up of fuel supplies. It has been estimated that, on an average, the country has been utilising only half the installed capacity. The imported equipment has not been maintained efficiently and the shortage of spares has led to under-utilisation of installed capacity in several cases. There have been too frequent breakdowns of the power plants in service and the poor record of the Tarapur nuclear plant has not been an exception. In some cases, unsuitable quality of coal used in the plants has damaged the boilers. Maloperation of thermal units has also resulted from the inadequate training of staff. The performance of the Neyveli Thermal Power Station has been particularly disappointing as inadequate supply of lignite has led to its working to a capacity of 150 mw. against its rated capacity of 600 mw. Many of ther-

mal plants are not able to operate to full capacity due to inadequacy of supply of coal. While large stocks of coal are lying at pit-heads, wagons are not available to lift them.

Delay in the Commissioning of New Schemes

While there has been no dearth of power projects, their implementation has not proceeded according to the Plan either due to delay in civil works or due to delay in the delivery of plant and equipment. Broadly, there has been a delay in civil construction in the case of projects with a total capacity of 1,771 mw. Similarly, in the case of schemes with total capacity of 775 mw., the delay was due to untimely delivery of plant and equipment. The delay was due to both these reasons in some other cases. Public sector enterprises manufacturing power equipment have not been able to cope with the country's growing requirements of such equipment. The cost of Indian made equipment is quite high and the delivery schedules are much longer, leading to considerable delays in the commissioning of new plants. Besides, there have been shortages of essential construction materials like steel and cement. It is reported that equipment imported for the 240 mw. Koradi thermal station in Maharashtra, which was expected to be commissioned in 1970-71, is still unpacked. Now it is expected to go on stream in 1973-74. The Koyna hydro-electric scheme—stage III is also behind schedule and the plant and equipment supplied by the Bhopal Heavy Electricals is lying idle. The power shortage in the Punjab has been made more acute due to the non-completion of schemes like Badarpur thermal station and Kota nuclear power station, which were scheduled to be commissioned in 1970-71.

Losses in Transmission

Energy losses in transmission and distribution lines in many States have further accentuated the already deteriorating power situation. It has been estimated that currently the loss of 18 per cent in transmission adds up

to 3-4 million kw. and for every one per cent reduction of losses, the revenue benefit would be about Rs. 5 crores. In the U.S.A., Japan and other developed countries where power capacitors are used, the losses in transmission are kept as low as 3-5 per cent. On the contrary, transmission losses of the order of 20-25 per cent are reported in the Punjab. In the context of the overall power shortage, the country can ill-afford such huge losses in transmission of electric power.

Power Shortage: Impact on Industry and Agriculture

According to some experts, the industrial production has fallen on an average by Rs. 50 crores a week due to power cuts and if the present shortage continues, it might lead to a chain reaction, which will reverberate throughout the spectrum of the entire economy. Thousands of tube-wells are lying idle most of the time in the Punjab, Haryana and Western U.P.—the green revolution belt. And the position is getting equally serious in the eastern, western and southern regions, where power requirements of industry are much higher than in the northern region.

In the eastern region, there has been a massive load-shedding, which has badly hit industry. During the first nine months of 1972, the jute industry lost Rs. 11 crores worth of production and Rs. 7 crores worth of exports owing to power cuts. The Hindustan Steel lost 60,000 tonnes of production during April-September on account of power shortage. According to official estimates, industrial production has fallen by 25 per cent in the Punjab since August last, resulting in overall loss of Rs. 130 crores to industries, including wages paid to workers laid off. In Tamil Nadu, loss in the textile industry alone due to power cut would be nearly Rs. 5.5 crores per month. Fertiliser production has been drastically cut at Nangal and production at Gorakhpur, Kanpur and Baroda has also been affected on account of power shortage.

Decade Power Plan

Power generation schemes involve long gestation period requiring about 5 to 8 years of active construction for completion. Therefore, unless decisions in respect of their implementation are taken well in advance, it would not be possible to commission them according to the needs and the resulting power shortages cannot be removed by any means. Therefore, the Ministry of Irrigation and Power has prepared a tentative power generation programme for the decade 1971-81, which focusses attention on the various measures required to be initiated in order to ensure successful implementation of the programme. The Decade Plan envisages a target of 52 million kw. by 1980-81 raising the per capita consumption to 240 kwh.

Crash Plan to Tackle Power Shortage

The Cabinet Committee consisting of the Ministers of Finance, Planning, Industrial Development, Steel, Agriculture and Irrigation and Power has been looking into both short-term and long-term aspects of the power situation, while attempting to identify the points of failure and take remedial action for putting the available supply to optimum use. The Prime Minister, Smt. Indira Gandhi, has directed the Cabinet Committee to tackle the problem of power shortage on an emergency basis by putting the installed generating capacity to better use, besides taking steps to complete the sanctioned projects for augmenting the supply in various States.

Apart from embarking on a crash programme to put the installed capacity to maximum use through better maintenance and management, other corrective measures now initiated will take some time to yield results. In the meantime, as the Union Minister for Irrigation and Power has indicated, the country has to bear with the overall power shortage till about 1974.

Legal Decisions

On Banking

Refusal to Accept - When Amounts to Delivery ?

Shamsadbi Naga Pinjari

vs.

Gunvantibai Ramsnehi

74 Bombay Law Reporter 723

Contributed by N. K. Randeria

The question in this petition was whether an endorsement by a postman on the cover of a letter properly addressed prepaid and posted by registered post would entitle the Court to hold that the endorsement was made by the postman and that it was correctly made.

The relevant facts were that the petitioner was in arrears of rent, and, therefore, a notice of payment was issued by the respondent on the 21st June 1965, but it was refused. The petitioner contested the claim of the respondent by stating that she had not refused the notice at all. The Trial Court framed a number of issues and found as a fact that the respondent had established that the petitioner was a wilful defaulter. In view, however, of certain findings, the Trial Court dismissed the suit. On appeal by the respondent, the District Court reversed those findings. It also held that the respondent was entitled to take possession on the ground that the petitioner was in arrears of rent for more than six months and that she had not paid the same within one month of the notice.

Being aggrieved by and dissatisfied with the order of the District Court, the petitioner filed an appeal to the High Court.

It was contended before the High Court on behalf of the petitioner that the tenancy of the petitioner was not validly terminated because there was no valid service of notice by the respondent. No evidence to establish that the notice was refused by the petitioner was laid. The respondent ought to have examined the postal peon if she wanted to establish that there was refusal on the part of the petitioner. The endorsements on the registered letter not being legally proved, could not be said to be admissible in evidence.

The High Court rejected the aforesaid contentions. After reviewing the decided cases on the subject, the High Court observed that on the facts and circumstances of the instant case, the presumption in illustration (e) of Section 114 of the Indian Evidence Act 1872, would be of help. According to that illustration, the Court might presume that the official acts had been regularly performed. Therefore, the Court was entitled to hold that the endorsement on the cover was made by the postman and it was correctly made. The High Court added that a presumption of regularity of official business could easily be inferred. However, if there was some evidence to rebut this presumption, then a different finding would follow. The High Court referred to Section 27 of the Indian General Clauses Act which provided that where a central act or legislation authorised or required any document to be served by post, then, unless a different intention appeared, service should be deemed to be effected by properly addressing, prepaying and posting by registered post the letter containing the document, unless the contrary was proved to have been effected at the time at which the letter would be delivered in the ordinary course of post. Therefore, service of notice to quit would be deemed to be effected by properly addressing, prepaying and posting by registered post the letter containing the notice.

In view of this, the petition was dismissed.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 24-11-1972	A Month Ago 27-10-1972	A Year Ago 26-11-1971
State Bank of India			
Aggregate Deposits :	1,828.1	1,779.6	1,470.5
Demand (Exclusive of inter-bank transactions)	835.8	810.3	652.9
Time (-do-)	992.3	969.3	817.6
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc. ..	1,138.7	1,127.4	1,063.8
Investments in Government Securities	580.7	620.3	410.3
Subsidiary Banks			
Aggregate Deposits :	460.7	461.0	403.8
Demand (Exclusive of inter-bank transactions)	187.3	189.7	166.6
Time (-do-)	273.4	271.3	237.2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	365.4	356.9	305.0
Investments in Government Securities	99.4	99.6	85.3
All Scheduled Commercial Banks			
Aggregate Deposits :	8,005.9	7,891.5	6,704.8
Demand (Exclusive of inter-bank transactions)	3,410.8	3,370.9	2,857.6
Time (-do-)	4,595.1	4,520.6	3,847.2
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	5,282.8	5,225.5	4,822.6
Investments in Government Securities	2,197.7	2,238.6	1,599.4

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	June 1972	March 1972	June 1971
State Bank of India			
No. of Offices	2,575	2,532	2,302
Finance to Small Scale Industries*:			
No. of Units Assisted	40,152	39,289	35,700
Limits Sanctioned	277.36	266.40	246.13
Outstandings	187.18	179.98	159.01
Direct Finance for Agriculture :			
No. of Accounts	1,87,931	1,85,095	2,05,584
Limits Sanctioned	66.29	64.57	69.96
Outstandings	45.56	44.31	47.45
Indirect Finance for Agriculture :			
No. of Accounts	885	906	990
Limits Sanctioned	117.49	94.51	127.06
Outstandings	62.30	34.63	57.97
Export Finance :			
Outstandings	116.11	118.13	101.19
Subsidiary Banks			
No. of Offices	1,406	1,357	1,236
Finance to Small Scale Industries*:			
No. of Units Assisted	20,713	20,307	18,371
Limits Sanctioned	95.53	95.77	88.71
Outstandings	54.31	56.67	46.00
Direct Finance for Agriculture :			
No. of Accounts	63,497	63,066	63,998
Limits Sanctioned	30.99	31.13	30.91
Outstandings	18.78	19.40	21.07
Indirect Finance for Agriculture :			
No. of Accounts	778	861	648
Limits Sanctioned	18.54	16.97	8.01
Outstandings	6.79	7.19	8.94
Export Finance :			
Outstandings	14.91	15.11	12.46

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

		Position as on 24-11-1972	A Month Ago 27-10-1972	A Year Ago 26-11-1971
(Amounts in rupees crores)				
1. Money Supply with the Public	...	8,405	8,283	7,491
(a) Currency with the public		4,845	4,748	4,499
(b) Deposit money with the public		3,560	3,535	2,992
		September 1972	August 1972	September 1971
2. Foreign Exchange Reserves	...	798.5	801.2	789.1
(Per cent per annum)				
3. Money Rates				
(a) Bank Rate	...	6	6	6
(b) State Bank of India Advance Rate	..	8½	8½	8½
(c) State Bank of India Hundi Rate		8¾-10½	8¾-10½	8¾-10½
(d) Call Money Rate (Bombay)		3.2	3.3	4.8
(e) Bazar Bill Rate (Bombay)	..	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

	March 1972	February 1972	March 1971
4. Index Number of Industrial Production (1960 = 100)			
General Index ... (Adjusted)	194.8	198.3	184.4
	Week ended 25-11-1972	Week ended 28-10-1972	Week ended 27-11-1971
5. Index Numbers of Wholesale Prices (1961-62 = 100)			
All Commodities ...	211.0	210.3	185.9
Food Articles ...	244.0	246.5	204.6
Liquor and Tobacco	239.5	239.8	197.0
Fuel, Power, Light and Lubricants	180.5	180.3	173.8
Industrial Raw Materials ...	217.1	207.0	184.7
Chemicals ...	202.0	199.2	201.5
Machinery and Transport Equipment ...	169.6	169.3	161.0
Manufactures ...	177.4	175.8	167.9
	July 1972	June 1972	July 1971
6. Consumer Price Index Number for Industrial Workers—All-India (1960 = 100)	205	201	190
7. Foreign Trade			
	(Rupees in crores)		
Total Imports ...	148.8	138.3	166.9
Total Exports (including re-exports) ...	141.4	140.9	148.9

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना ।

STATE BANK OF INDIA MONTHLY REVIEW

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Problems in Designing and Implementation of Management Planning and Control Systems in State Bank of India*

S. K. Datta

Deputy Secretary (Reorganisation)

In view of the massive branch expansion programme undertaken by State Bank of India leading to considerable dilution of the quality of staff and increasing remoteness of the operating units from the controlling offices, it became necessary to make a depth study not only of the existing control systems but also of the administrative structure itself. To appreciate the size and complexity of the problems, we have to bear in mind the following aspects :

(a) We are an organisation which has existed in some form or other for more than 100 years. Therefore, specific and somewhat rigid conventions have been built up. Our strengths and weaknesses are so deep-rooted that any extensive change in the administrative structure gives rise to genuine apprehensions regarding its feasibility or desirability.

* Presentation made on 11-12-72 at a Workshop on Design and Implementation of Management Control Systems conducted by the Indian Institute of Management, Ahmedabad, at Agra.

(b) Our systems and procedures have stood the test of time. While these have certainly been reviewed periodically, only marginal adjustments were attempted. Large scale changes in this area, if introduced without thought, could lead to serious upsets.

(c) We have more than 2,600 offices spread all over the country. As on the 30th September 1972, the total number of our branches, which are independent accounting units, was 1,658 and the total number of offices stood at 2,647. Thus, as on that date, we had nearly 1,000 sub-offices, which render customer service in a somewhat restricted way and are not independent accounting units. Our branch expansion has been so rapid that we have multiplied six-fold (number of office-wise) in the course of the last 17 years and are today opening, on an average, one office on every working day.

Each branch requires a Branch Manager who not only needs guidance and provision of resources but also has to be controlled. In the pre-reorganised set-up, the control functions of Local Head Offices were decentralised, to an extent, by the establishment of Regional Manager's Offices at Shillong, Patna, Bhopal, Bhubaneswar and Bangalore. The introduction of an intermediate stage between the branches and the Local Head Offices, however, led to delays and inconveniences. Further, if we plan for having a network of 4,500 to 5,000 branches in the course of next 10 years, this set-up would certainly be uneconomical.

While, therefore, it was not as if the structure of State Bank of India was coming to pieces, it was decided that with a view to equipping ourselves at least for the next 10 years or so, we should examine the desirability of bringing about changes in the administrative structure and the control mechanisms. A detailed SWOT (strengths, weaknesses, opportunities, threats) study was made of the Bank's organisational structure: this highlighted certain

basic changes in approach necessary in our operations. These are :

- (1) The objectives of the Bank, viz., “profit and growth”, should be spelt out and communicated to all Managers in the Bank;
- (2) Branches as the ultimate operating units must be geared to render good customer service and satisfy the demands of the customers.

The scheme of reorganisation of the Bank comprises three principal elements :

(a) The work at branches will be divisionalised market-segment-wise instead of activity-wise. Hitherto the operations at a branch had been classified according to the types of banking activity, viz., deposits, advances, remittances, collections and purchases. In the new set-up, four separate types of customers are identified, which are such as have more or less the same kinds of demand regarding banking services. These market segments are :

- (1) Commercial and institutional (comprising large companies, traders, clubs, universities, trusts, etc.)
- (2) Personal (individual customers)
- (3) Small industries and small business
- (4) Agricultural.

Another division called the Services Banking Division is also envisaged for offering such services as executor and trustee services, income-tax advisory services, etc. This division would cater to all types of customers. While the general approach to the business of a branch has to be on the basis of these divisions, it may not be really necessary to have separate divisions physically established at all branches unless the work handled is of substantial magnitude. Main Branches and other large branches will certainly have all or some of the divisions but the majority of our branches, which are small in size, may not have any

division at all. In any case, the approach to business at a branch will invariably be on the basis of market segments as identified.

(b) Officials at Head Office with operational responsibility of control, etc., and the functional and staff specialists will be separated right up to the seniormost level at each Local Head Office. In our organisation, historically, promotional, developmental and operational responsibilities used to be clubbed together in such functionaries as Development Officer, Staff Superintendent/Personnel Officer, etc. With vast and rapid expansion of our branch network and the necessity to diversify activities to meet urgent economic needs, optimum results may be achieved only if separate inputs are made by those two types of functionaries. Synthesis of the views of the two wings is achieved at the level of the Circle Management Committee of which the Secretary & Treasurer, Dy. Secretary (Operations) and Dy. Secretary (Planning and Staff) are members.

(c) A formal planning system in the form of budgeting from the grass-root level of branches will be introduced. We are a multi-product organisation. Not only do we render diverse banking services but also cater to distinct markets or customer groups, as already discussed. It is necessary for each Branch Manager to conceive clearly not only our objectives of "profit and growth" but also the fact that specific banking activities separately are not "banking" for the branch. Thus, deposit mobilisation or granting agricultural credit may be very important functions, but a Branch Manager should plan for an integrated growth of his branch; and for this purpose, he must take into account the totality of the activities in a matrix form.

We have accepted that the introduction of formal planning system in the Bank is inevitable if we have to attain our objectives in a systematic and controlled manner. So far, we have not attempted "strategic planning" for designing long-term strategy although we realise that this may mean that short-term plans will be devoid of direction.

We propose to take up long-term planning after the system of short-term planning has been appropriately internalised. At present, our planning comprises “action planning” for formulating quantified levels of achievement through Policy Guidelines at two levels, viz., Central Office and Local Head Office, and “operational planning” for developing performance targets for annual periods in the form of budgets broken up into monthly goals. As in any planning, our short-term planning takes into account:

- (a) objectives,
- (b) assumptions,
- (c) expectations, and
- (d) alternative courses of action (in the shape of strategies).

Our budgeting is done at three levels, viz., Central Office, Local Head Office and Branch. It is a pyramidal structure with more than 1,600 operating units at the base, 9 Local Head Offices in the middle and Central Office at the apex. In September every year, the Chairman as the Chief Executive Officer of the Bank sends out to the nine Secretaries & Treasurers an indication of his expectations of levels of business in the coming year, as well as his views on the efficacy of the existing strategies and proposed strategies. His expectations are based on macro-level economic data as also on interpretation of the national policies and the priorities of the Government. Each Secretary & Treasurer also does a similar exercise with the assistance of his Manager (Planning) in so far as the area of operation of his Circle is concerned and discusses his estimates with the Chairman. The estimates both at Central Office and at Local Head Office levels are, by and large, restricted to levels of business, viz., deposits, advances and miscellaneous business. Although “profits” are an important element in planning, Circlewise or even whole-Bankwise profits are not discussed by the Chairman with the Secretaries & Treasurers. In a bank,

the various adjustments, allocations and provisions that are to be made out of profits cannot be determined in advance, at least at the present stage. Therefore, while there is a common knowledge of the profits arising out of certain business levels, settled or accepted, these are not recorded in order to avoid questions on discrepancies later on. The formulation of Central Policy Guidelines is the direct result of the Chairman's discussions with the Secretaries & Treasurers, where the desirability and the feasibility of attaining the business levels are examined from both national and Circle points of views. The expected levels of business in a Circle, along with the rationale thereof, comprise the Circle Policy Guidelines which are issued by each Secretary & Treasurer to all Branch Managers under his administrative control.

Each Branch Manager compiles his Branch budget on the basis of :

- (a) Performance over the last 3 years,
- (b) environmental (economic) data relevant to his area of operation,
- (c) other threats and opportunities like competition, staff attitudes, etc., and
- (d) strategies.

Budgets so compiled are sent in a draft form to the Local Head Office where the Manager (Planning) gives them a first reading and collates them for the consideration of the Regional Managers. These draft budgets are discussed by each Regional Manager with the Branch Managers under his control and mutually accepted levels of business are arrived at. It is essential that the settlement is done invariably after personal discussions and never through letters. In fact, a good deal of emphasis has been laid in the new system on discussions at personal level. Formulation of Policy Guidelines at two levels as indicated, and the settlement of budgets are the main props of our planning framework. At the discussions at Central Office

between the Chairman and the Secretaries and Treasurers and at the discussions between the Regional Managers and Branch Managers pressure is exerted by both sides. This is not only unavoidable but desirable inasmuch as there is no other way by which we may overcome the usual human failings of playing safe and ensure that efforts are maximised. It is imperative, however, that after the budgets are settled, the estimates of business are accepted by the Branch Managers as their commitment and not as targets imposed upon them. This requires a basic change in attitudes and we are consciously making efforts to bring about the new culture. The entire process of annual budgeting starting from the Chairman's sending out draft Central Policy Guidelines to Branch Managers' submitting final budgets to the Local Head Office takes over 14 weeks. This period is crucially important, when Managers at all levels have to put in some extra work.

Review of performance is done on a monthly basis, emphasis being placed on the analysis of variances. For the first time in our Bank, we have introduced a Management Control Return in the form of the monthly Performance Report which is entirely different from other statistical or statutory returns. In fact, arithmetical accuracy of figures is not so much insisted upon and quantities are expressed in thousands or lakhs of rupees. For the first time, we have asked our Branch Managers to submit a return of this nature without waiting for the balancing of books. For, what we are interested in is not the exact amount but, generally speaking, the trends. The Branch Manager is also helped by this report to undertake an exercise of self-analysis. This report gives him an opportunity to look at the totality of the performance of the branch for which he is accountable to his controlling authority.

Apart from business levels, the branches also budget for

(a) earnings, expenses and profits,

- (b) capital expenditure, and
- (c) staff requirements.

Separate forms have been designed for these budgets and they are settled in the same manner as business budgets.

While capital expenditure budget is of interest to the top management in order to get an idea of the commitment of funds that will be necessary in the following year, the staff budgets is an innovation in the Bank's culture inasmuch as it recognises explicitly that in order that a Branch Manager may achieve a certain level of business, he has to be provided with adequate staff resources. Thus, while the Branch Manager accepts as a commitment, the business levels he has settled with the controlling authority, he also expects that staff resources, as budgeted, will be provided to him on his showing trends of growth in branch business. We particularly emphasise the fact that acceptance of a staff budget is not sanctioning of staff, which can be performed only on an examination of the actual circumstances at the material point of time. Additionally, these staff budgets comprise the micro-level data for manpower planning on a scientific basis.

The problems that are being faced by us are not only diverse in character but also of varying seriousness. We shall examine below some of them. But I must add that many of these problems have remained unsolved and even where some solutions are arrived at, they are not necessarily the final ones. A continuous process of learning from experience is recognised to be essential and we keep our minds open.

In designing the budget formats themselves, various points had to be considered. The forms should not only be easy for handling but their structure should be such as would highlight the data which has to be used for budgeting. Thus, the details of competition and environments like population, number of households, industrial

development, agricultural progress, etc., should be constantly visible to the Branch Manager while he draws up his annual budget. If he has to turn over leaves to look at these details, it is more likely than not that these figures will not receive his constant attention. Also, the size and the shape of the forms are of importance. Should we have a large number of smaller forms or a smaller number of large-size forms? A trade-off has, therefore, to be done and the existing set of forms has been accepted for the present with the clear understanding that we will replace them by more functional forms in course of time. In fact, O & M people in the Bank are already working on this.

In the budget for earnings, expenses and profits, "operating surplus" is indicated for assessing the viability of individual market segments of a branch, as well as "contribution surplus" for assessing the effectiveness of the branch as a whole. These surpluses comprise the "net surplus" for assessing overall corporate performance. But as we have already observed, most of the branches are not physically divisionalised and, therefore, an important item of expenditure, viz., staff expenses cannot be segmented. At present, all staff expenses for those segments for which divisions have not been created are to be included under the omnibus head 'Accounts'. Therefore, an arithmetical aggregation of the budget forms for earnings and expenses will lead to an aberrated picture for the market segments. For the present, therefore, "operating surplus" for each segment is arrived at after taking into account the direct interest earnings and direct interest expenses only. Large branches with divisions may, individually, present a fuller picture of their divisions. Among non-relatable expenses, some are controllable (like electricity, travelling expenses, etc.), while others are not (rent, insurance, etc.). The Branch Manager has to develop the faculty of segregating the various expenses and try to control those which can be controlled. This again is a somewhat new exercise. We are inculcating the attitude that efficiency will be measured by expanding the span of controlled area to "imponderables."

Budgeting and reporting periods were also a problem. The Bank's accounting year corresponds to the calendar year which does not correspond to the economic cycle. The issue to be examined is whether the budgeting period and the accounting period should be coincident. Policy Guidelines have to take into account monetary policy which follows fiscal policy as a result of the Central and State budgets. Again, agricultural operations are on a cycle different from the fiscal period. We now budget for the accounting period, i.e., January to December. This procedure has several operational conveniences. But the impact of workload on Branch Managers for having to devote attention to budgeting as well as to annual closing at the same time is yet to be fully examined.

Reporting period is on a monthly basis so that corrective actions can be taken promptly and would be effective. The concept of corrective actions in the new set-up again is new to our culture. These actions do not comprise penal action only and may, in some cases, even mean a re-examination of the assumptions and expectations. The corrective actions may also involve provision of resources by way of staff or other equipment. Whether revision of budget is necessary will depend on the extent of the mid-course correction required as a result of the half-yearly review or even on the basis of trends evidenced by monthly performance. Revision of the budgets of all branches is a time-consuming and laborious process and may require to be avoided. But we may restrict the exercise to certain selected branches of critical importance in order to arrive at a more pragmatic estimate, should the circumstances so demand. A balance has to be struck between this and the fact that too frequent and too extensive changes may hamper or even destroy credibility.

In implementing the scheme of budgeting, suitable phases were devised for the exercise. Simulated budgets were drawn up in November 1970 at a group of 22 branches in a compact area in Maharashtra. The objectives of the simulation were :

- (a) to test the ability of Branch Managers to understand the underlying principles of planning and quantifying the expectations in monthly goals,
- (b) to test the functionality of the budget forms,
- (c) to test the time element in completing the exercise, and
- (d) to test the budget settlement procedure.

The response, by and large, was encouraging. Of course, certain amendments to the formats and procedures, originally designed, had to be made as a result of this experience. In the next phase, the entire reorganisation of the administrative structure, including the introduction of budgeting, was taken up in Ahmedabad Circle and the Maharashtra and Goa regions of Bombay Circle. Learning again from the experience so derived, the scheme was implemented in all the nine Circles as from the 1st July 1972.

In operating the new Management Control System, the important problems can be basically clubbed in three categories:

- (a) human,
- (b) systems and procedures, and
- (c) technical,

in that order of seriousness. To start from the end, reading and analysis of data are to a very large extent new to the Bank's culture. The concept that the Regional Manager has a managerial responsibility for controlling branches and does not merely "maintain" them is another area of new venture. In a divisionalised branch, Manager of each division has the responsibility for performance in that division, while the Branch Manager has the total responsibility for the branch performance. A question may, therefore, arise as to how we delineate their respective boundaries when performance has to be evaluated.

Management Committees have been formed at Local

Head Offices and at divisionalised branches. In these Committees, the members accept a common task goal and share a joint responsibility for the unit (Circle or Branch) as a whole, which is distinct from their individual executive responsibilities. In an organisation which used to recognise only vertical, hierarchical arrangements, we are attempting to introduce the concept of distributive leadership. In these Management Committees all the members are equal, although in the executive field of work they are not. These are matters of far-reaching importance, particularly when we consider the size of the organisation with more than 2,600 offices and about 76,000 strong staff.

Our systems and procedures are manualised in the Book of Instructions which requires a thorough re-examination in the light of the new style of handling work at branches and also certain shifts in emphasis. This task will not only have to be intensive but will require ascertainment of views of various people in the operational field. A task force charged with this specific responsibility is going round representative offices of the Bank in order to draw up specific action plans.

In the field of human problems, a sense of insecurity has developed or is likely to develop in the "old soldiers". All that they have held as sanctified in regard to systems and attitudes is now open to examination. The traumatic experience that results from the introduction of such an extensive change may hinder efficiency. We have to take special care that the Bank's trusted officers and employees do not get demoralised. Relationship problems, particularly at peer level, can become acute. Our ability to handle superiors and subordinates should extend to our equals. As an element of competition inevitably exists among peers, the issue assumes serious dimensions. Strictly formal correspondence in many areas is being replaced by discussions where both parties are exposed to each other: this may lead to embarrassment, particularly to the senior one if he is not sure of his grounds.

Problems arise and will continue to arise in the various fields we have been discussing. The temptation will be to solve a problem by reverting to the old system, but this has to be resisted if we have to ensure a speedy implementation of the new system. While we should keep our minds open to accept amendments, compromise with the basic principles of the reorganised set-up may lead to a total wastage of the efforts and expenses in evolving the reorganised pattern. Series of seminars at all levels of seniority have been and are still being held for Managers. Clarity of roles is an area of doubt and, often, dispute. We are also cultivating in our Managers the faculty of identifying and analysing problems instead of being overwhelmed by them and running to conclusions on the basis of inadequate data. We have still a long way to go but there is a general feeling of commitment to the new system by the staff of the Bank.

Budgeting is not a new concept in the industrial world. But its application to commercial banking is quite recent. The difficulties involved in quantifying meaningfully the banking activities are formidable. Physical units of production are clearly identifiable in an industrial concern but the position is not so in a bank. A mere aggregation of new deposits and advances does not lead to the period-end position. We have, therefore, to modify the normal procedures of budgeting by period-end results to average results. In any case, what is intended to be introduced is a concern for result and the objective is to plan on the basis of quantity, quality, cost and time. We have leaped from the stage of power-orientation in which targets were dictated by superiors and subordinates had, at their own peril, to implement them, to the concept of result-orientation through participation in planning. We belong to a small group of banks in the world who have accepted and introduced planning and budgeting in such a detailed manner. Others who have preceded us in this exercise are still to internalise this system completely. We are, therefore, optimistic of the results of our efforts.

Jute Industry : Problems and Prospects

As the country's largest foreign exchange earner, the jute industry occupies a strategic position in the national economy. However, the fortunes of the industry have been subjected to many ups and downs. On the supply side, fluctuations in the production of raw jute, low yield per acre, cost inflation, labour unrest, obsolete machinery and irregular power supply are some of the factors affecting the performance of the industry. On the demand side, emergence of synthetics, changing pattern of demand for jute goods in world markets and competition from Bangladesh are the problems facing the industry.

Raw Jute: Fluctuations in Production and Prices

The production of raw jute has been erratic. This has resulted in instability in raw jute prices, thereby upsetting the jute economy. The large amplitude of price variation is partly the cause and partly the result of fluctuations in acreage under jute. Land suitable for cultivation of jute is also suitable for paddy cultivation and, therefore, the farmers' response to price changes in determining the acreage under jute is highly sensitive. Being an agro-based industry, its production is subject to natural vagaries like drought and floods.

TABLE NO. 1**Raw Jute (Including Mesta): Area and Production**

Season (July- June)	Area (In '000 hectares)	Production (In '000 bales)	Percentage variation over the previous year	
			Area	Production
1965-66	1,110	5,778	— 7.4	— 24.0
1966-67	1,119	6,579	+ 0.8	+ 13.9
1967-68	1,201	7,592	+ 7.3	+ 15.4
1968-69	806	3,959	— 32.9	— 47.9
1969-70	1,090	6,785	+ 35.2	+ 71.4
1970-71	1,077	6,168	— 1.2	— 9.1
1971-72	1,121	6,840	+ 4.1	+ 10.9
1972-73	N.A.	5,700 @	—	— 16.7

@ Trade Estimates. Official estimates are a shade higher at 59 lakh bales
N.A. — Not available.

Fluctuations in the prices of raw jute from one season to another in tune with the trends in production have been a great handicap of the industry. This has introduced an element of uncertainty, which, in turn, has rendered steady development difficult.

The 1972-73 Season : Smaller Jute Crop

In a sharp contrast to the 1971-72 season, when the jute industry had a comfortable position in regard to supply of raw jute (overall supply was 85 lakh bales), the 1972-73 season is likely to be a period of raw material shortage. Production of jute and mesta is expected to be 57-59 lakh bales as against over 68 lakh bales in 1971-72. The smaller jute crop is attributed to the long dry spell that prevailed in West Bengal and Bihar and floods in Assam and Orissa. With a carry-over of 14.0 lakh bales from the 1971-72 season and an import of 3 lakh bales from Bangladesh, the overall availability of the fibre would be of the order of 74-76 lakh bales as against the requirements of 76

lakh bales. This indicates that the season may perhaps close without any carry-over stocks unless additional imports are made.

Yield Per Acre: Low

As can be seen from Table No. 1, the increase in production in certain seasons has been mainly due to expansion in acreage. There has been little improvement in the yield per acre. The average yield in India is lower at 2.8 bales per acre against 3.8 bales in Bangladesh and Thailand. There is considerable scope for improving the yield by undertaking intensive jute cultivation programmes.

Cost Inflation

The industry has been experiencing a persistent rise in the cost of almost all the items that go into the production of jute manufactures. Raw jute accounts for about 70 per cent of the cost of sacking and 65 per cent of the cost of hessian. During 1972, the index number of wholesale prices (1961-62=100) for raw jute increased from 126.0 to 171.0, a rise of 35.7 per cent. Next to raw jute, wages constitute the most important item of cost. The ever-increasing wage bill is cutting deeply into the profitability of the industry. The monthly wages per worker increased steadily from Rs. 94 in 1964 to Rs. 142 in 1969 and further to Rs. 189.40 in 1971. Under the tri-partite agreement reached on May 7, 1972, the minimum wage of a worker has been raised from Rs. 189.40 to Rs. 235 per month with effect from April 15, 1972. Thus, within a period of eight years, wage-structure in the jute industry has escalated by 150 per cent.

Labour Relations: Deterioration

A disquieting feature is the deteriorating labour situation. The tri-partite agreement of the 7th May 1972, which entailed an additional annual wage burden of Rs. 22 crores,

has failed to maintain industrial peace. Between the 8th May 1972 and the 2nd September 1972, work had to be completely suspended in 10 mills for 80 days. This caused a loss of 5.5 million man-hours and of 6,500 tonnes in production worth Rs. 2.5 crores. In addition, 30 mills which accounted for 55 per cent of the industry's capacity were affected by partial strikes, go-slow and other forms of indiscipline. The workers have been agitating over issues like night shift allowances, badli workers and inter-departmental transfers—issues which are fully covered by the settlement. Another unhealthy development is sudden stoppage of work due to inter and intra-union rivalries.

Modernisation and Diversification : Slow Progress

A rather disappointing feature of the industry is the slow pace of modernisation. Modernisation and rehabilitation of machinery as well as diversification of production has not taken place during the last decade, except during 1962-63 and 1963-64, when some diversification and expansion were attempted. The survival of the industry is greatly dependent on its ability to accelerate the pace of modernisation and diversification. According to the Economic Times, during 1970-71, gross fixed assets increased at a nominal rate of 2.1 per cent. And, whatever little asset formation has taken place over the year, has been financed almost wholly by internal sources of which depreciation was the most significant. In fact, external sources have hardly been taken advantage of, mainly because there was no large scale expansion programme for implementation.

Irregular Power Supply

Power supply to jute mills, which had bedevilled the production since 1970, has not shown any signs of improvement. In fact, the situation has further deteriorated. A disquieting feature of power crisis is that the mechanical break-downs at the generating plants are caused by indifferent maintenance or non-replacement of worn-out machinery. As against a production loss of 20,000 tonnes valued

at Rs. 7 crores for the whole of 1971, the industry lost output of 30,000 tonnes valued at Rs. 11.10 crores (including exports worth Rs. 6.66 crores) in the first nine months of 1972. Power stoppages not only cause loss of production and defaults in the mills' export commitments but also place additional financial burden on the industry by way of lay-off compensation to workers for the period of suspension of production.

Jute Manufactures : Production

Depending upon the demand pattern in the domestic and world markets and the availability of raw jute, the production of jute manufactures has been fluctuating from year to year. As can be seen from the following Table, the pattern of production has undergone significant changes in recent years. The production of 'other manufactures' (items like carpet backing and canvas) in 1971-72 recorded steep increase, while that of sacking and hessian rose only marginally. This may be attributed to the stagnant external demand for jute fabrics for packaging consequent on the development of paper and synthetic materials and new techniques of bulk handling like containerisation.

TABLE NO. 2
Production of Jute Manufactures

(In thousand tonnes)

Year (July-June)	Hessian	Sacking	Other Manu- factures	Total
1965-66	488	548	191	1,227
1966-67	443	508	201	1,152
1967-68	451	458	232	1,141
1968-69	317	332	283	932
1969-70	341	377	250	968
1970-71	316	444	217	977
1971-72	331	499	308	1,138

Of late, the industry has been caught in the midst of a depression, especially from the demand side, due to its increasing inability, under mounting pressure of costs, to market its products in competition with synthetics and jute goods originating from other sources, principally Bangladesh. In the wake of fall in demand and increasing inventory, the industry is unable to maintain its production at the optimum level. This is reflected in the falling trend of output. During the first five months of the current jute season (July-November 1972), production of jute goods totalled 4.39 lakh tonnes against 4.50 lakh tonnes in the corresponding period of the last season.

Exports : Declining Trend Reversed

The jute industry is basically export-oriented. Consequently, developments on the demand side like competition from synthetics and Bangladesh and pattern of demand for jute goods in world markets have a vital bearing on the stability and growth of the industry.

TABLE NO. 3
Exports of Jute Manufactures

(In crores of rupees)

Year (April-March)	Exports of jute manu- factures	Total exports of India	Percentage share of jute goods in total exports
1965-66	182.84	805.64	22.7
1966-67	235.44	1,094.00	21.5
1967-68	234.09	1,198.69	19.5
1968-69	218.01	1,357.87	16.1
1969-70	206.65	1,413.28	14.6
1970-71	190.44	1,535.16	12.4
1971-72	265.28	1,568.61	16.9

The performance of the industry on the export front has been fluctuating since 1966-67. From Rs. 235.44

crores in 1966-67, exports of jute goods declined steadily to Rs. 190.44 crores in 1970-71. The low level of exports reached in 1970-71 was mainly due to the fall in demand for carpet backing on account of a decline in house building activity in the U.S.A. Besides, the increase in bonus voucher rate on Bangladesh jute goods (in erstwhile Pakistan) from 30 per cent to 35 per cent increased the competitive strength of that country and enabled it to make further inroads in world markets. The other advantages enjoyed by the Bangladesh jute industry are: (i) it has modern machinery, and (ii) raw jute produced in Bangladesh is cheaper and of better quality.

Competition from synthetics was also responsible for the declining trend in exports. Between 1968 and 1971, the share of jute in all primary backings used by the U.S. tufted carpets industry came down from 81 per cent to 63 per cent. Polypropylene backing is cheaper than jute primary backing by 6 cents a square yard. One of the advantages of the synthetics in relation to jute is that they are inert to a variety of chemicals as well as to certain biological micro-organisms, all of which destroy jute. As a result, it has not been possible to use jute bags for packing goods like strong fertilisers and caustic soda.

The falling trend in exports was reversed in 1971-72 mainly due to the disturbances in Bangladesh. Prior to disturbances, Bangladesh was exporting 40,000 tonnes of jute goods per month. Besides, 3.5 million bales of raw jute were also exported every year. Due to the extensive damage to the crop and to the jute mills, the industry in Bangladesh was in bad shape in 1971-72. This induced overseas consumers to turn to India for meeting their requirements. As a result, India's exports increased significantly from Rs. 190.44 crores in 1970-71 to Rs. 265.28 crores in 1971-72.

Exports during the four months ended August 1972 declined by 12 per cent to 1.86 lakh tonnes over the corresponding period of 1971 and by 22 per cent over the

preceding four months of January-April 1972. Reflecting the fall in export demand, stocks of jute goods have been steadily rising. During May-August 1972, stocks of jute goods rose by 38 per cent to 1.05 lakh tonnes. Carpet backing stocks at the end of August 1972 stood at 29,000 tonnes against only 12,000 tonnes a year ago.

Direction of Trade

There has been a change not only in the pattern of exports but also in the direction of the trade. Country-wise exports of jute goods are given in Table No. 4 below :

TABLE NO. 4

Country-wise Exports of Jute Goods (Bags and Cloth)

(In lakhs of rupees)

Country	1960-61	1965-66	1968-69	1969-70	1970-71
Australia	12,29	8,86	9,18	8,86	9,10
Canada	7,42	9,96	14,85	13,80	11,51
Cuba	7,13	29	—	—	—
Czechoslovakia	7	74	1,44	1,05	1,82
Iran	52	1,02	2,56	1,96	1,55
New Zealand	84	1,02	2,36	2,20	1,94
Sudan	1,40	2,34	2,74	4,27	7,32
U.A.R.	4,94	13,31	3,15	3,68	12,31
U.K.	6,22	6,85	4,13	3,80	1,99
U.S.A.	44,56	71,72	117,01	112,40	77,91
U.S.S.R.	3,67	25,48	27,07	21,91	34,42
Yugoslavia	17	50	20	94	1,70
Other Countries	42,14	34,38	25,14	26,72	23,47
Total	131,37	176,47	209,83	201,59	185,04

India's exports of jute goods are mainly directed to the U.S.A., the U.S.S.R., Canada and the U.A.R. Exports to the U.S.A. rose from Rs. 44.56 crores in 1960-61 to Rs. 117.01 crores in 1968-69, but thereafter declined steeply to Rs. 77.91 crores in 1970-71. Exports to Canada and the U.K. have been showing a declining trend since 1968-69; they fell from Rs. 14.85 crores and Rs. 4.13 crores in 1968-69 to Rs. 11.51 crores and

Rs. 1.99 crores in 1970-71 respectively. On the other hand, those to the U.S.S.R., Czechoslovakia and Yugoslavia recorded a significant rise during 1960-61 to 1970-71. Considering these trends, it is essential to take concerted action to stem the falling trend in exports to the U.S.A., Canada and the U.K. At the same time, efforts have to be made to enlarge our trade with East European countries to step up the total volume of exports.

Threat from Synthetics

The share of jute in all primary backings used by the U.S. tufted carpets industry has come down from 63 per cent in 1971 to 46 per cent in the second quarter of 1972 and is expected to decline further to 40 per cent by the end of 1972. In view of this, the licensing of 94 units spread over different parts of India for the manufacture of woven as well as non-woven heavy-duty PVC and high density polyethylene sacks has caused justifiable concern to the industry. It is feared that the implementation of the decision by the Fertilizer Corporation of India to have a captive unit, attached to each of its new fertiliser plants for producing plastic bags, would adversely affect the offtake of jute sacks.

Bangladesh Jute Industry : Competition

Following the restoration of normalcy, the Bangladesh jute industry has been able to sell its products at a sizeable discount over the prices ruling in Calcutta, as there is no incidence of export duty in Bangladesh. The abolition by the Bangladesh Government of the export bonus voucher system has in no way eased the problem of competition for the Indian jute industry. Even unaided by any subsidy, Bangladesh mills are offering a substantial price difference to buyers in relation to the Indian goods. The high cost of Indian goods has been a problem for which the remedy has remained elusive all the time.

On October 31, 1972, the Union Government decided to reduce the export duty on primary carpet backing from Rs. 700 to Rs. 300 per tonne with effect from November 1, 1972. This step is expected to improve the competitive position of primary carpet backing in the world markets. While this is a step in the right direction, the fiscal reliefs by themselves may not arrest the rapid incursions of synthetics into the carpet backing sector.

It is reported that India and Bangladesh have decided upon a division of jute markets so that each country operates in a specified area without competing with other. Details of common export strategy are currently being studied by the experts of the two countries. Both the countries have agreed to pool resources for joint research on diversified uses for jute goods. India has also agreed to reduce tariff on raw jute imports from Bangladesh to enable the jute growers in Bangladesh to get an adequate return for raw jute sold to India.

Prospects

From the foregoing, it is evident that the jute industry is passing through a difficult phase. It is also clear that the difficulties have not cropped up overnight but have been operating with varying intensity over the years. As mentioned earlier, the performance of the industry on the export front has been disappointing since 1966-67. The improvement recorded in 1971-72 was mainly due to the developments in Bangladesh. The industry had done precious little in the matter of strengthening its competitive position by modernisation and diversification. The vastly improved trading results achieved during 1971 as a windfall from the developments in Bangladesh should now enable the mills to speed up modernisation in all seriousness. Modern machinery will bring down costs by increasing productivity and by permitting more effective operation of quality control. As regards manufacture of machinery, it is understood that a very wide range of such machinery is now made in the country with foreign col-

laboration. Moreover, the Government has decided to allow import of machinery and equipment worth Rs. 1.5 crores and make available institutional finance at concessional rates to the spinning sector.

No doubt, synthetics have made serious inroads in world markets. However, it may not be beyond modern technology to fortify jute bags so as to withstand strong chemicals and also in other ways diversify the uses of jute goods. It is reported that the Indian Jute Industries' Research Association has evolved cheap and effective methods for further increasing the fire resistance property of jute goods. These kinds of technological inventions should be promptly absorbed by the industry in the manufacturing process.

Current Topics

Price Situation in 1972

During 1972, the Indian economy witnessed a sharp rise in the general price level as a result of a large increase in money supply with the public, particularly in the initial months following the hostilities with Pakistan in December 1971, severe drought conditions and consequent shortfall in agricultural production. The wholesale price index (1961-62=100) at 211.0 at the end of 1972 was higher by 12.6 per cent than its level prevailing a year ago. The index registered almost a continuous rise till December 16, when it reached the peak level of 211.8. There was, however, a marginal decline towards the close of the year and the index stood at 211.0 on December 30.

The rise in the index was mainly due to the increases of 17.7 per cent in the index of 'food articles' and 15.5 per cent in the index of 'industrial raw materials'. The index number of 'food articles' had increased by 3.8 per cent in 1971, while that of 'industrial raw materials' had declined by 8.1 per cent. The other groups which recorded increases during 1972 were 'liquor and tobacco' (20.8%), 'fuel, power, light and lubricants' (4.0%), 'chemicals' (0.2%), 'machinery and transport equipment' (5.0%), and 'manufactures' (5.8%).

Index Numbers of Wholesale Prices (1961-62 = 100)

	Last week of			Percentage variation of	
	1970	1971	1972	Col. 2 over Col. 1	Col. 3 over Col. 2
	1	2	3	4	5
I. Food Articles	198.9	206.4	242.9	+ 3.8	+ 17.7
(i) Rice	188.4	195.6	223.7	+ 3.8	+ 14.4
(ii) Wheat	207.2	213.6	237.1	+ 3.1	+ 11.0
II. Liquor and Tobacco	185.3	200.1	241.7	+ 8.0	+ 20.8
(i) Tobacco Raw	152.1	156.5	234.4	+ 2.9	+ 49.8
(ii) Tobacco Manufactured	218.9	245.6	254.2	+ 12.2	+ 3.5
III. Fuel, Power, Light and Lubricants	162.6	174.5	181.4	+ 7.3	+ 4.0
Coal	167.9	175.4	175.9	+ 4.5	+ 0.3
IV. Industrial Raw Materials	204.0	187.4	216.4	— 8.1	+ 15.5
(i) Raw Cotton	242.2	210.1	185.8	— 13.3	— 11.6
(ii) Raw Jute	142.5	126.0	171.0	— 11.6	+ 35.7
(iii) Groundnuts	202.4	192.1	269.0	— 5.1	+ 40.0
V. Chemicals	189.4	201.5	202.0	+ 6.4	+ 0.2
VI. Machinery and Transport Equipment	149.2	161.7	169.8	+ 8.4	+ 5.0
VII. Manufactures	158.7	168.9	178.7	+ 6.4	+ 5.8
A. Intermediate Products	182.0	198.3	217.7	+ 9.0	+ 9.8
B. Finished Products	153.1	161.8	169.2	+ 5.7	+ 4.6
(i) Cotton Manufactures	152.3	162.9	166.2	+ 7.0	+ 2.0
(ii) Jute Manu- factures	185.3	190.5	183.1	+ 2.8	— 3.9
(iii) Iron and Steel Manufactures	165.1	181.2	199.1	+ 9.8	+ 9.9
VIII. All Commodities	181.2	187.4	211.0	+ 3.4	+ 12.6

The increase in the index of food articles was mainly due to the fear of a sharp decline in agricultural production as a result of drought conditions, which prevailed over large parts of the country. Prices of rice and wheat shot up by 14.4 per cent and 11.0 per cent respectively during 1972 as against the rise of 3.8 per cent and 3.1 per cent in 1971. Foodgrains production during 1971-72 at 104.7 million tonnes was lower by 3.1 million tonnes than 107.8 million tonnes in 1970-71. Prospects for the current year seem to be far from satisfactory and the latest estimate shows that the foodgrains output may not exceed 100 million tonnes during 1972-73. As a result of the increased releases for public distribution during the year, the Central Government's buffer stocks dwindled to as low figure as 3.6 million tonnes recently, from the high level of 9.5 million tonnes in June 1972. Prices of sugar and edible oils also rose sharply during the year because of reduced supplies and fear of shortages. The production of sugarcane in 1971-72 estimated at 11.7 million tonnes was lower than 13.8 million tonnes in 1970-71. The prospects for sugarcane crop in 1972-73 are also rated as far from satisfactory. The production of groundnut in 1971-72 is estimated at 5.7 million tonnes compared with 6.1 million tonnes in the previous year. The trade estimate for 1972-73 places the groundnut production at a still lower level of 4.7 million tonnes.

The index number of 'industrial raw materials' increased by 15.5 per cent during 1972, as compared with a decline of 8.1 per cent a year ago. Among industrial raw materials, indices of raw jute and groundnuts were higher by 35.7 per cent and 40.0 per cent respectively than those in 1971, while the index of raw cotton declined by 11.6 per cent. Though the production of jute and mesta was higher at 6.8 million bales in 1971-72 than 6.2 million bales in 1970-71, prospects for 1972-73 are reported to be far from bright, as a result of the delayed monsoon and prolonged drought in the jute growing areas. The production of cotton during the 1971-72 season at 6.5

million bales was higher than 4.6 million bales in the previous season. The cotton crop in 1972-73 is estimated at a lower level of about 6.0 million bales.

The index of 'manufactures' recorded an increase of 5.8 per cent in 1972, against 6.4 per cent in the preceding year. The increase in prices was larger in the case of intermediate products (9.8%) than in the case of finished products (4.6%). Among finished products, index of cotton manufactures recorded a smaller increase of 2.0 per cent as against the rise of 7.0 per cent in 1971, while jute manufactures showed a decline of 3.9 per cent as against the rise of 2.8 per cent in 1971. The prices of iron and steel manufactures registered an increase of 9.9 per cent during the year, as compared to a rise of 9.8 per cent a year ago.

One of the important factors responsible for the rise in prices in 1972 was a substantial rise in money supply as an after-effect of the heavy public expenditure on refugee relief and hostilities with Pakistan towards the end of 1971. The growth rate of money supply was higher particularly in relation to the growth of output of goods and services. During 1972, money supply increased by 11.1 per cent over that in 1971. Though this is lower than the rise of 13.6 per cent in 1971, it is very high in relation to the growth of national income, which is likely to be very low, if not negative, in the current year. The increase in real national income in 1971-72 was less than 4 per cent compared to increases of 5.3 per cent and 4.7 per cent respectively recorded in 1969-70 and 1970-71.

The most important contributory factor for the large monetary expansion was the budgetary deficit of the Government. The bank credit to Government rose by Rs. 1,243 crores to Rs. 7,318 crores during 1972. The demand for bank credit from the commercial sector, however, slackened and during 1972, bank credit to this sector declined by Rs. 344 crores against an expansion of Rs. 68 crores in 1971.

A number of measures were taken during the year to check the price rise. It is expected that the step-up in market borrowings, buoyancy in tax revenues and fiscal restraint by the States may help the Centre in keeping down deficit financing. The Government's gross borrowings reached a new record level of Rs. 734 crores in 1972. To curb the persistent increase in prices, the Reserve Bank of India tightened the control on advances against cotton and kapas, oilseeds and vegetable oils and raised the statutory liquidity ratio of banks from 29 per cent to 30 per cent to mop up excess liquidity in the banking system. To tide over the shortage of steel, the Government not only continued its liberal and need-based policy of import but also allowed additional imports of scarce varieties. Imports of iron and steel during 1971-72 amounted to Rs. 237.6 crores as against Rs. 147.0 crores in 1970-71. Cotton imports also showed an increase to Rs. 113.4 crores from Rs. 98.8 crores in 1970-71. The Union Government has recently decided to import larger quantities of cotton in order to make up for the fall in cotton production during the current year. To make up for the shortfall in domestic production, the Union Government has planned to import about 2 million tonnes of foodgrains. The Government is also streamlining the public distribution system of foodgrains. The number of fair price shops increased from 1.25 lakhs to 1.50 lakhs in recent months.

In spite of these measures taken by the Government, the price situation will need careful watching in the coming months, in view of the widespread drought in the country, power shortage and its likely effect on industrial production and increasing volume of public expenditure.

Legal Decisions

Affecting Bankers

Collecting Bank—Liability of

The Punjab National Bank Limited, Gondia

Appellant (Defendant)

vs.

Firm, Ishwarbhai Bhai Lalbhai Patel & Co.

Respondent (Plaintiff)

AIR 1971 BOMBAY 348

Contributed by N. K. Randeria

Two questions which arose for consideration in this appeal were: (i) whether the agent appointed by the collecting bank for collection of a cheque at a place where it had no branch was a sub-agent or a substitute agent, and (ii) whether two branches of the bank were two distinct and separate entities or they constituted only one concern. Briefly stated the facts were that the firm of Ishwarbhai Bhai Lalbhai Patel & Company, the plaintiff, presented to Punjab National Bank, Gondia, the defendant, a cheque drawn in its favour on the Lakshmi Bank, Bhandara, with the instructions to credit the amount in its account, after realisation. The defendant did not have a branch at Bhandara and, therefore, sent the cheque to Lakshmi Bank, Gondia, for collection. The Lakshmi Bank, Gondia, in turn, sent the said cheque to its Bhandara branch. The cheque was passed for payment and a payment order was issued by Lakshmi Bank, Gondia, to the defendant, directing the defendant to receive the amount in cash by presenting the payment order at the counter of Lakshmi Bank. The payment order was duly presented to the Lakshmi Bank, Gondia, but on one pretext or another, payment was not made. The payment order was again presented the next day, but no payment was made, as by that time the

Lakshmi Bank had suspended payment. The plaintiff filed a suit against the defendant alleging that on the cheque being handed over to the defendant, the amount of the cheque should have been credited to its account as the defendant became the holder of the cheque and was solely responsible to collect the amount from the Lakshmi Bank.

The Trial Court, after considering the evidence, dismissed the suit on the ground that the defendant was a mere agent for collection and was not liable to credit the amount unless the proceeds of the cheque had been received by it.

On appeal the District Judge set aside the decree of the Trial Court. The District Judge held that the defendant became an agent of the plaintiff for the purpose of collection of the amount of the cheque, that because of this relationship, the liability of the defendant would arise vis-a-vis the plaintiff when defendant collected the amount, that defendant had received the payment order, which meant that the Lakshmi Bank, Gondia, had received the amount, that the defendant had no implied authority to name a person to act for the plaintiff in the absence of an agency entrusted to it and, therefore, the appointment of Lakshmi Bank, Gondia, was its own affair, that the Lakshmi Bank, Gondia, became the sub-agent of the defendant, that there was no privity of contract between the plaintiff and Lakshmi Bank, Gondia, and as such the defendant alone was liable to the plaintiff.

Being aggrieved, the defendant preferred an appeal to the High Court.

Referring to the provisions of Sections 192 and 194 of the Contract Act, the High Court pointed out that in the case of properly appointed sub-agent, the agent is responsible to the principal for the acts of the sub-agent, while in the case of substitute agent, i.e., a person named by the agent holding an express or implied authority to act for the principal in the business of agency, the principal is responsible.

The High Court observed that the nature of the business of the defendant, namely, agency to collect the amount on behalf of the constituent, was such that the defendant had to appoint another person for the purpose of realisation, and since the Bhandara branch was part and parcel of the main bank, that is, Lakshmi Bank, and the collection of the amount would have been facilitated by appointing the Gondia branch of that bank, the defendant had an implied authority to appoint the said branch and the said branch would be a substitute agent and not a sub-agent. The acts of the Lakshmi Bank, Gondia, as substitute, would be binding on the plaintiff, and the defendant would not be responsible to the plaintiff unless it had received the amount in its hands and credited the same to the account of the plaintiff. The High Court declared that mere issuance of the payment order would not amount to payment to the person entitled under the payment order. Therefore, the amount remained with the Lakshmi Bank, Gondia, who was under a duty to pay the amount to the holder of the payment order, viz., the defendant for the plaintiff, and if the Lakshmi Bank did not pay, it would be the Lakshmi Bank which would be liable to pay the amount to the plaintiff as it was constituted a substitute agent of the plaintiff in this transaction.

Dealing with the second question, the High Court, after considering the decided cases, observed that while it was true that both the branches had their own constituents, they could not be said to be independent of the main Bank as all the funds and transactions must be taken to be those of the Lakshmi Bank itself and not of the individual branches. The High Court felt that the Lakshmi Bank was the main business concern which could sue or be sued and was responsible for all the acts done by its branches, which had no separate and independent existence.

In the result, the appeal was allowed with costs.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I
SELECTED ASSETS AND LIABILITIES OF BANKS
IN INDIA

(Rupees in crores)

	Position as on 29-12-1972	A Month Ago 24-11-1972	A Year Ago 31-12-1971
State Bank of India			
Aggregate Deposits :	1,861.4	1,828.1	1,501.9
Demand (Exclusive of inter-bank transactions)	862.0	835.8	668.8
Time (.. .. . -do-)	999.4	992.3	833.1
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc. ..	1,237.6	1,138.7	1,114.5
Investments in Government Securities	560.6	580.7	415.1
Subsidiary Banks			
Aggregate Deposits :	470.5	460.9	401.2
Demand (Exclusive of inter-bank transactions)	193.5	187.5	159.4
Time (.. .. . -do-)	277.0	273.4	241.8
Advances : (Excluding due from banks)			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills pur- chased and discounted, etc.	378.0	364.8	317.2
Investments in Government Securities	101.9	99.4	89.4
All Scheduled Commercial Banks			
Aggregate Deposits :	8,145.6	8,005.9	6,936.6
Demand (Exclusive of inter-bank transactions)	3,457.8	3,410.8	2,991.0
Time (.. .. . -do-)	4,687.8	4,595.1	3,945.6
Advances : (Excluding due from banks)			
Loans, Cash Credits & Over- drafts, Inland and Foreign Bills purchased and discounted, etc.	5,398.1	5,282.8	5,051.6
Investments in Government Securities	2,150.8	2,197.7	1,643.4

TABLE II
SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	Position as at the end of		
	June 1972	March 1972	June 1971
State Bank of India			
No. of Offices	2,575	2,532	2,302
Finance to Small Scale Industries*:			
No. of Units Assisted	40,152	39,289	35,700
Limits Sanctioned	277.36	266.40	246.13
Outstandings	187.18	179.98	159.01
Direct Finance for Agriculture :			
No. of Accounts	1,87,931	1,85,095	2,05,584
Limits Sanctioned	66.29	64.57	69.96
Outstandings	45.56	44.31	47.45
Indirect Finance for Agriculture :			
No. of Accounts	885	906	990
Limits Sanctioned	117.49	94.51	127.06
Outstandings	62.30	34.63	57.97
Export Finance :			
Outstandings	116.11	118.13	101.19
Subsidiary Banks			
No. of Offices	1,406	1,357	1,236
Finance to Small Scale Industries*:			
No. of Units Assisted	20,713	20,307	18,371
Limits Sanctioned	95.53	95.77	88.71
Outstandings	54.31	56.67	46.00
Direct Finance for Agriculture :			
No. of Accounts	63,497	63,066	63,998
Limits Sanctioned	30.99	31.13	30.91
Outstandings	18.78	19.40	21.07
Indirect Finance for Agriculture :			
No. of Accounts	778	861	648
Limits Sanctioned	18.54	16.97	8.01
Outstandings	6.79	7.19	8.94
Export Finance :			
Outstandings	14.91	15.11	12.46

* Figures include finance to transport operators and are as on the last Friday of the month.

TABLE III
SELECTED ECONOMIC INDICATORS

	Position as on 29-12-1972	A Month Ago 24-11-1972	A Year Ago 31-12-1971
(Amounts in rupees crores)			
1. Money Supply with the Public ...	8,574	8,405	7,720
(a) Currency with the public	4,960	4,845	4,577
(b) Deposit money with the public	3,614	3,560	3,143
	October 1972	September 1972	October 1971
2. Foreign Exchange Reserves ...	794.0	798.0	812.4
(Per cent per annum)			
3. Money Rates			
(a) Bank Rate ...	6	6	6
(b) State Bank of India Advance Rate ...	8½	8½	8½
(c) State Bank of India Hundi Rate ...	8¾-10½	8¾-10½	8¾-10½
(d) Call Money Rate (Bombay)	3.1	3.2	4.7
(e) Bazar Bill Rate (Bombay) ...	15	15	15

TABLE III
SELECTED ECONOMIC INDICATORS (Contd.)

	May 1972	April 1972	May 1971
4. Index Number of Industrial Production (1960 = 100)			
General Index ... (Adjusted)	200.3	195.6	183.2
	Week ended 30-12-1972	Week ended 25-11-1972	Week ended 25-12-1971
5. Index Numbers of Wholesale Prices (1961-62 = 100)			
All Commodities ...	211.0	211.1	187.4
Food Articles ...	242.9	244.0	206.4
Liquor and Tobacco	241.7	239.5	200.1
Fuel, Power, Light and Lubricants ...	181.4	181.3	174.5
Industrial Raw Materials ...	216.4	217.2	187.4
Chemicals ...	202.0	202.0	201.5
Machinery and Transport Equipment ...	169.8	169.6	161.7
Manufactures ...	178.7	177.5	168.9
	August 1972	July 1972	August 1971
6. Consumer Price Index Number for Industrial Workers—All-India (1960 = 100)			
	207	205	194
	September 1972	August 1972	September 1971
7. Foreign Trade	(Rupees in crores)		
Total Imports ...	151.7	148.2	148.2
Total Exports (including re-exports) ...	156.9	163.9	116.8

